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World Business Newspaper <http://www.FT.com>

TUESDAY JULY 15 1997

Bonn moves to speed sale of Lufthansa stake

Seven international banks have been invited to put forward plans for the privatisation of the German government's final 35.88 per cent stake in national airline Lufthansa. The talks with banks suggest Bonn is hastening efforts to complete the sale of the stake - valued at about DM4.5bn (\$2.57bn) - by the end of the year. Page 17

Merrill in Israel telecoms deal: Investment bank Merrill Lynch is paying the Israeli government \$250m for 12.5 per cent of state telecoms company Bezeq. The move came a day after confirmation that a planned August public offering in the telecoms group was being postponed. Page 17; Observer, Page 16; Lex, Page 16; Cellular tender, Page 18

DuPont buys ICI bulk chemicals: The UK's Imperial Chemical Industries is selling its titanium dioxide and polyester businesses for \$3bn to DuPont, the US's largest chemicals group. Page 17; Observer, Page 15; Lex, Page 16

Formula One pledges: Richard Branson, head of the UK's Virgin group, promised to set up a rival motor racing contest if Formula One carries out its threat to pull out of the British grand prix when the UK government bans tobacco advertising and sponsorship. Page 10

UK orders Gulf syndrome study: Britain's Labour government announced fresh research into the mysterious ailments suffered by many Gulf War veterans and promised speedier assessments of their condition. It will spend £2.5m (\$4.24m) on studies of the possible effects of vaccines and tablets given to protect troops against insects, chemical and biological warfare. Page 10

Peru anger grows: Peru faces anti-government protests over what are seen as further constitutional violations by President Alberto Fujimori. The protests were sparked by a TV report of routine telephone tapping by the authorities, and news that the main shareholder in the channel that revealed the tapping was to be stripped of his Peruvian nationality. Page 7

Jailed for corruption: The head of an Egyptian public company was jailed for 10 years for corruption. Abdel Wahab El-Habbak, who was denounced by his estranged wife, was convicted of embezzling over \$26.2m of public funds. Page 7

Volkswagen of Germany plans to double car production in Slovakia to more than 60,000 next year from 30,000 in 1996. It aims to be making some 300 cars a day in 1998.

Trouble for Mir chief: Vasily Tsibilyev, Russian commander of the damaged Mir space station, is exhausted and has a minor heart problem. Russian mission control said this should not affect his planned sortie to the hauled Spektr module, but more health tests would be conducted today.

Accident mars start of Israeli games: The opening of the 15th Maccabiah, the Jewish Olympics, near Tel Aviv was marred when a bridge to the stadium collapsed, killing one person and wounding at least 40 others, five of them seriously, police said.

Hague court jails Serb war criminal:



The UN war crimes tribunal at The Hague sentenced Bosnian Serb Dusan Tadic, above, to 20 years in prison for his part in a vicious "ethnic cleansing" campaign against Moslem civilians. "Dusko" Tadic, 41, was given a total of 97 years on 11 counts of crimes against humanity and war crimes, to run concurrently. Page 2

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STOCK MARKET INDICES		GOLD	
New York: Dow Jones Ind. Av.	7336.88 (+14.89)	New York: Gold	320.1 (-0.1)
NASDAQ Composite	1521.43 (+18.81)	London: Gold	320.75 (-0.25)
Europe and Far East			
CAC40	2941.59 (+12.59)		
DAI	4124.19 (+82.22)		
FTSE 100	4871.4 (+67.9)		
Nikkei	20228.72 (+33.23)		
US LUNCHTIME RATES		DOLLAR	
Federal Funds	5 1/4%	New York: D-Mark	1.838
3-mth Treas. Bils. Yld	5.13%	DM	1.785
Long Bond	101.5	FF	5.0695
Yield	6.54%	Y	1.476
		¥	113.935
OTHER RATES		STERLING	
UK 3-mo interbank	8.11% (same)	London: £	1.8883 (1.8948)
UK 10 yr Gilt	101.5 (101.4)	DM	1.7999 (1.7886)
France 10 yr OAT	103.58 (103.48)	FF	5.0485 (5.075)
Germany 10 yr Bund	103.58 (103.48)	¥	1.4744 (1.4559)
Japan 10 yr JGB	104.5842 (same)	¥	113.5 (113.55)
NORTH SEA OIL (Argus)		TELETYPE	
Brent Dated	\$17.84 (18.07)	DM	3.0236 (2.9887)

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Boeing and Brussels closer over US merger

Commission proposes deal on McDonnell Douglas spare parts

By Emma Tucker in Brussels and Michael Skapinker in London

Boeing and the European Commission were edging towards a deal yesterday which could help break the deadlock over the aircraft maker's proposed merger with McDonnell Douglas.

Brussels is understood to be willing to accept a deal under which Boeing would license a third party to make spare parts for McDonnell Douglas's civilian aircraft.

Such a move would answer the Commission's concern that an enlarged Boeing would have an overwhelming position in the civil aircraft market, making it difficult for Airbus Industrie, the European consortium, to compete.

The Commission is concerned that airlines operating McDonnell Douglas aircraft would be overly dependent on Boeing for their servicing and supply of spare parts. Brussels has pointed out that following the merger Boeing would control 84 per cent of the existing global in-service fleet.

The idea of licensing a third party could help break the deadlock between Brussels and Boeing which arose after a European Union advisory committee recommended blocking the merger, contradicting the US Federal Trade Commission, which approved it without conditions.

The takeover of McDonnell Douglas, first announced in December, would create the world's biggest aerospace and defence company. Although there have been few complaints from airlines about the merger, Airbus has said the enlarged Boeing plans to force it out of business.

Legal experts believe an agreement between Boeing and the Commission could take the form of a licence to a third party of McDonnell Douglas's intellectual property rights, combined with a transfer of the relevant know-how needed to manufacture the

spare parts. Granting a licence to a third party in order to establish greater competition is a remedy commonly deployed by companies seeking EU approval for mergers.

For example, in its merger with Scott Paper, Kimberley-Clark agreed to license the Kleenex brand for use in the UK and Republic of Ireland on toilet paper and kitchen roll.

Boeing refused to comment on the Commission's proposal, saying only that it was continuing to work with Brussels to find "a mutually acceptable solution".

However, industry observers said licensing a third party to manufacture McDonnell Douglas spare parts could create other difficulties. "Customer service can't be separated from spares. Who's going to provide the training and technical support? Boeing has hundreds of field representatives around the world," one observer said.

With only days to go before the official deadline for EU regulatory approval of the controversial deal, a Brussels source said much work still needed to be done on the two other sticking points that threatened to wreck the merger.

Boeing and the Commission have yet to resolve differences over the 20-year exclusive supply deals that Boeing has concluded with three US airlines. Boeing has offered to shorten or modify the contracts, but this is unlikely to change the decision by the airlines to buy their aircraft from the US manufacturer rather than from Airbus.

Brussels had earlier given Boeing until last night to submit final proposals on how to meet EU concerns. This was to allow for a further meeting of the Commission's advisory committee and the translation of texts.

However, as the Commission is not due to make a decision until July 23, negotiations between the two sides are likely to continue until next week.



The coffin of Miguel Angel Blanco is carried by his family, followed by politicians, military officers and the population of Ermua, Spain, during a massive funeral yesterday. He was kidnapped and shot by the Basque guerrilla group, ETA. Report, page 2

Chirac warning on hindering industry

By Samer Iskandar in Paris

Mr Jacques Chirac, the French president, yesterday warned France's Socialist government not to hamstring industry with "obsolete and absurd regulations".

He called for a resumption of reforms initiated by Mr Alain Juppé, the former rightwing prime minister, but frozen by the Socialist government in the wake of its recent electoral victory.

Speaking on television as part of the Bastille Day celebrations, the Gaullist president attacked the government's plans to make it more difficult for companies to lay off employees as part of corporate restructuring. "This is a discussion from another time... One cannot imprison the activities of those who create [wealth and jobs] in obsolete and absurd regulations," he said in his first TV appearance since the beginning of his "cohabitation" with the Socialists.

The president also cautioned against the socialist government's attempts to slow down the privatisation process. "The state today has nothing to do with the management of

the competitive sector: it is not its role. Every time it has done so, things went badly wrong or were very costly. Our large companies can no longer live without alliances. They must be able to forge European alliances," he said, referring to Thomson-CSF, the French defence and electronics company whose full privatisation was called off by the government last Friday.

In response, Mr François Hollande, of the Socialist party, said the president had no choice but to let the government govern. He said Mr Chirac had "yet to understand that on June 1, the French rejected the choices, the decisions, and the measures" of the outgoing government.

The president reaffirmed France's commitment to joining the single European currency, due to be introduced in January 1999, but he said the budget deficit for 1997 would

be "of the order of 3.5 per cent [of gross domestic product]", well outside the target of 3 per cent of GDP set by the Maastricht treaty as a condition of entry into economic and monetary union.

The government of Mr Lionel Jospin, prime minister, is struggling with the need to meet the Emu criteria, while keeping to its electoral pledges on jobs and welfare.

However, the president stopped short of advocating a liberal economic model similar to that of the UK or US. Mr Chirac said Mr Tony Blair, Britain's Labour prime minister, was a "very liberal" free marketeer.

The president also renewed his pledge to "fight with extreme firmness" the far right National Front, which won almost 15 per cent of the vote in the election.

Preparing for Emu, Page 3

BT braced for investor grilling at AGM

By Martin Brice, Virginia Marsh and Alan Cane in London and Richard Waters in New York

British Telecommunications' board was yesterday rehearsing its response for what is expected to be a bruising annual general meeting in Edinburgh tomorrow.

Sir Iain Vallance, BT chairman, is known for his ebullient way with unhappy shareholders, but he is expected to have to deal with a flood of questions from investors concerned about the future of the company's planned merger with MCI of the US.

The merger between the two companies, set for completion this autumn, is in jeopardy after MCI unexpectedly revealed last week that its

Continued on Page 16 Lex, Page 16

Kenya is told to reform or western aid will be stopped

By Michela Wrong in Nairobi and Michael Holman in London

International pressure on Mr Daniel Arap Moi, Kenya's president, intensified yesterday when western nations urged him to introduce political reforms or face suspension of aid and loans.

Renewed political violence in the capital Nairobi prompted a tough warning from Germany, one of the country's leading donors. "The Kenyan government can only count on our development aid if it complies with democratic, pluralistic and constitutional rules in political debate," said the German ministry for economic co-operation and development.

The public message was reinforced yesterday by private warnings from other bilateral donors as well as the World Bank and the International Monetary Fund.

An IMF official is due in Nairobi today and is expected to make clear that renewal of the

country's loan agreement is dependent not only on stronger action against corruption but also on an end to the political unrest that is undermining the economy.

Nairobi yesterday echoed once again to the sounds of gunfire and exploding tear gas canisters, as police fought street battles with thousands of students calling for constitutional reform.

The rioting, which followed the worst week of political unrest in the country in seven years, exploded as students from the Kenya Polytechnic in central Nairobi set up barricades of burning tyres in the central Haile Selassie Avenue.

Chanting "no reforms, no elections", the slogan of the broad-based movement calling for constitutional change before forthcoming polls, the students stoned security forces who responded with plastic bullets and tear gas.

The Central Bank of Kenya and central post office were closed and traffic piled up as

the three-and-a-half hour battle raged in the heart of the city. Riot police fanned out to protect the nearby US embassy before storming the polytechnic to snuff the protest out.

At least nine people were killed when police broke up peaceful rallies last week calling for the repeal of colonial-era laws giving the president an advantage in elections expected later this year.

Last week's scenes of riot police clubbing unarmed civilians senseless in what is traditionally regarded as East Africa's most stable democracy triggered an outcry abroad and have sent tremors through Kenya's financial markets.

The fresh flare-up suggests that a recent offer by the president to discuss the constitution with the governing council of the ruling Kanu party and a conference of party delegates had done little to assuage a growing sense of public anger.

Observer, Page 15

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Bosnian Serb gets 20 years in prison

By Guy Dinmore in Belgrade

The United Nations war crimes tribunal in The Hague yesterday handed down a 20-year jail sentence to Mr Dusan Tadic, a Bosnian Serb, for crimes committed against Muslims.

He was found guilty of being involved in beatings and torture that led to at least two deaths during the 1992-95 Bosnian war. The sentence reflected the international community's new "get-tough" policy towards war criminals as a means of shoring up the fragile Dayton peace accord before Nato's scheduled withdrawal from Bosnia next June.

The presiding judge, Mrs Gabrielle Kirk McDonald of the US, sentenced Mr Tadic, a former police reservist, on 11 counts and delivered a harsh message to indicted Bosnian Serb leaders still at large.

"You embraced the extreme principles of Serb nationalism," she said.

"Those who sought territorial and political gains initiated a campaign to realise these goals by force of arms with limitless cruelty and viciousness. You responded to this campaign... and you must bear responsibility for your criminal conduct."

Lawyers for Mr Tadic, who pleaded not guilty on the basis of mistaken identity, are to appeal against the sentence, only the second to be passed by the tribunal since it was formed in 1993. An ethnic Croat who took part in the Bosnian Serb army's execution of Muslims in 1995 was jailed for 10 years.

The tribunal holds 10 indicted suspects at its detention centre in The Hague and has publicly announced warrants against 67 other suspects, including the former Bosnian Serb president, Mr Radovan Karadzic, and his military commander, Gen Ratko Mladic. Both have moved

freely within Serb-controlled areas as well as in neighbouring Serbia.

In a radical change of strategy that coincided with a tougher policy adopted by the US towards Bosnia, the tribunal said in June it would issue sealed warrants to maximise the chances of seizing suspects unaware they had been indicted.

After years of criticism of Nato for failing to back the tribunal's efforts to bring war criminals to justice, British special forces in northwest Bosnia last Thursday shot dead Stimo Drljaca, a former police chief, after he resisted capture, and arrested Mr Milan Kovacevic, a hospital director. Both had been secretly indicted for crimes against Muslims in the notorious Omarska detention centre where Mr Tadic had also been active.

Drljaca was given a hero's funeral with military honours in the northwest town of Banja Luka on Sunday.



Dusan Tadic, sentenced for murder and crimes against humanity

Hours later a bomb exploded outside the offices of international monitors in Serb-controlled Zvornik, destroying a truck and shattering windows. There were no casualties.

Mr Chris Bennet, spokesman for the International Crisis Group that monitors implementation of the Bosnian peace accord, hailed the US-backed operation against Mr Drljaca as an "incredible masterstroke". "Drljaca was a massive fish, 95 per cent as

big as Karadzic," he commented in Sarajevo.

Drljaca, he said, was not only a wanted war criminal but a war profiteer allied to the hardline camp supporting Mr Karadzic in his power struggle with his successor, Mrs Biljana Plavsic, president of the Serb republic that makes up half of the theoretically unified Bosnian state.

Mr Bennet said Serb reaction to Nato's new strategy of seizing war criminals was

likely to be muted as the Bosnian Serb leadership needed the continued presence of US troops to ward off the threat of any offensive by the stronger Muslim-Croat army.

Mr Momcilo Krajcnik, the Bosnian Serb member of the collective Bosnian presidency and a hardline opponent of Mrs Plavsic, attended Sunday's funeral and denounced the trial of Mr Tadic as politically motivated.

EUROPEAN NEWS DIGEST

Kremlin hails 'reform vote'

Kremlin officials yesterday hailed the election of Mr Ivan Sklyarov as governor of Nizhny Novgorod as a vote for the continuation of economic reform and a rejection of political extremism. Mr Boris Nemtsov, who vacated the governor's seat in March to become first deputy prime minister, said Mr Sklyarov's victory showed Nizhny Novgorod's 4m residents wanted to move forward to the 21st century rather than back to "bankrupt communist slogans and ideas".

The opposition parties had fought a determined campaign to defeat the pro-reform candidate in what was seen as an important test of Russia's political mood. More than 50 Communist MPs campaigned for their candidate, Mr Gennady Khodyrev, who also received the backing of Mr Vladimir Zhirinovskiy's ultra-nationalist Liberal Democratic party.

In the second round of voting on Sunday, Mr Sklyarov won 52 per cent of the vote against 42 per cent for Mr Khodyrev.

But in a less important ballot on Sunday for the post of mayor of Samara, Mr Georgy Litvinsky decisively defeated the Kremlin-approved candidate, Mr Litvinsky is the regional head of Mr Alexander Lebed's nationalist party.

■ DUTCH SUPERVISION

Watchdogs seek tougher act

The three Dutch financial watchdogs confirmed yesterday that they are to tighten their collaboration and to discuss a full merger, in response to parliamentary worries about the reliability of the present system of supervision.

The Dutch central bank, the securities trading watchdog, STX, and the insurers' review board, VK, are to compile a register for directors of financial institutions, to ensure standards of professional integrity. This confidential list would make it more difficult for directors dismissed under dubious circumstances to find a new employer.

Partly on the back of two recent scandals, involving a fraudulent broker and a bankrupt insurer, Mr Gerrit Zalm, Dutch finance minister, last year asked the watchdogs to study closer collaboration.

Parliamentarians also complained that the current system was outdated and that it lacked co-ordination, at a time when the distinctions between banking, insurance and investment were tending to become increasingly blurred.

■ PORTUGUESE ECONOMY

June inflation falls to 1.8%

Portugal's year-on-year inflation fell to 1.8 per cent in June, down from 2.1 per cent in May and half the level of the 3.6 per cent registered in June last year, the National Statistics Institute said yesterday. Annual average inflation dropped to 2.9 per cent from 3.0 per cent in May and 3.3 per cent a year earlier.

"These figures indicate that annual average inflation will fall to about 2.5 per cent by the end of the year and virtually ensure that Portugal will comply with the inflation criteria for participating in the single European currency," said a senior bank economist.

Portugal's central bank cut its three main money market intervention rates by 0.3 percentage points on Friday, bringing the repurchase rate, the main reference for short-term interest, to 5.7 per cent. *Peter Wise, Lisbon*

■ US ADVICE

Slovakia urged to reform

Mrs Madeleine Albright, the US secretary of state, called on Slovakia yesterday to "rejoin the path" of democratic reform and earn a place in Nato alongside the Czech Republic.

In a speech in her native Prague, Mrs Albright made a special appeal to the eastern part of the former Czechoslovakia, which has become a diplomatic outcast because of perceived shortcomings in making democratic reforms.

Saying that the Clinton administration had promised to back all nations "between the Baltic and Black seas" which met Nato's criteria for membership, Mrs Albright said she hoped it would "rejoin the path of true democratic reform" and make itself a "strong candidate for the second round of Nato enlargement".

When Czechoslovakia peacefully split into separate states in 1993, Slovakia was seen as being among the frontrunners for early Nato membership.

But when Nato issued its first membership invitations to post-Communist states in Madrid last week, only Poland, Hungary and the Czech Republic won the nod. Slovakia was not even mentioned as a top prospect to join Nato in future.

■ GERMAN ECONOMY

Exports maintain recovery

Germany's economy has continued to recover during the second quarter thanks to strong exports, but domestic activity remains subdued, the economics ministry said yesterday in its latest monthly report.

To boost growth and employment, a decisive investment pickup is needed, but confidence has been dampened because of the uncertain fate of government tax reforms, it said.

The opposition Social Democrats (SPD) threw a government package of DM30bn (£17bn) in tax cuts out of the upper house of parliament this month.

The tax reform now faces protracted parliamentary mediation. The report said that latest data still supported the view that "the drawn-out deterioration is coming to an end... at least in western Germany". The situation was more bleak in the east, where spending on jobs schemes has been cut back.

ECONOMIC WATCH

Unemployment edges down

Spanish unemployment fell by 0.2 percentage points to 21.17 per cent from March to May this year, the National Statistics Institute (INE) reported yesterday.

The data are based on a quarterly rolling basis. The institute added that the number of people without a job fell by 1.04 per cent from the previous February-to-April period to 3.387m. The unemployment rate stands at 23.35 per cent for women and at 16.63 per cent for men. The total number of employed rose by 0.14 per cent to 12.651m. Last week, official figures showed that registered unemployment fell in June by 13.2 per cent at the end of May. This was the lowest percentage of jobless people registered at employment offices since June 1991.

Reuters, Madrid

Watchdog insists he has real bite

World's most liberal market is the aim of Germany's new telecoms regulator

Germany's telecommunications law has the potential to create the most liberal market in the world. The task now is to fulfil that ambition, without being distracted by politicians or resistance from Deutsche Telekom, the former monopoly which dominates the telecoms business.

That is the agenda set by Mr Klaus-Dieter Scheurle, appointed last week as head of a new post and telecommunications regulatory authority which starts work next January 1. "We have a real chance to get a very competitive environment - and very strong growth," he said in an interview.

There is nevertheless considerable scepticism among newcomers in the sector. The government is widely regarded as having moved too slowly in setting up the new authority, which has less than six months to prepare for full liberalisation. Mr Scheurle himself - a senior civil servant in the post and telecommunications ministry - is seen as lacking business experience, as too political (he worked for the parliamentary party of Chancellor Helmut Kohl's Christian Democratic/Christian Social Union between 1989 and 1993) and too close to the dominant companies he is supposed to control.

His office is in the same block in Bonn as Deutsche Post, the mail service. Until his appointment as regulatory chief he was on the supervisory board of T-Mobile, the mobile telephone subsidiary of Deutsche



Klaus-Dieter Scheurle: no favours for Deutsche Telekom

Telekom, which is still majority-owned by the state.

But Mr Scheurle, a quietly-spoken native of Stuttgart, says such accusations are "not new" - and wrong. "The new telecommunications act, the rates regulation ordinance and the interconnection ordinance are regarded as the most liberal framework in the world," he claims. "The point now is to see the aims of the

telecommunications act are fulfilled. We won't have any political discussions on this point - or special favours for Deutsche Telekom."

As for his own background, "you cannot say that it is better to have an academic or someone from the private sector. I believe it really depends on the quality of the person - the strength of the individual... Perhaps you have your own vision of a civil servant, but remember German civil servants drew up the telecommunications act which, as I said, is very liberal."

The 1996 act is already being tested. Mr Wolfgang Botsch, federal post minister, who has regulatory responsibilities until the end of the year, is embroiled in a dispute with Deutsche Telekom. The issue is "interconnection" arrangements offered by the telecoms giant to new competitors which wish to link their networks with Deutsche Telekom's. Mr Botsch has threatened fines if acceptable offers are not made.

Mr Scheurle, who will now be more closely involved in such decisions, says interconnection rules "are things that Deutsche Telekom is not going to like", but a company which no longer has monopoly status "has to change its attitude". His relationship with Deutsche Telekom, he maintains, "hasn't been easy for much of the time because of Deutsche Telekom's concerns about the telecommunications act when it was being considered by parliament."

As if to emphasise his distance from Deutsche Telekom, he happily suggests the group should consider selling its loss-making cable television interests, which serve almost 17m households. He has no power to force such a move and doubts on cost grounds whether, as some claim, the network could be used by competitors as a rival telecommunications business. "But if the cable business makes losses it would be a very good business decision to sell it or to do something else with it."

In his approach to his new job, Mr Scheurle shrugs off differences in business culture between Germany - where the boundary with politics is often blurred and a consensus approach often preferred - and the UK or US, where independent telecoms regulators are well established. "I don't think there are big differences because we have free markets in all these countries, as well as similar regulatory frameworks."

The future development of Germany's telecoms industry depends on two factors, Mr Scheurle says. First, the strength of competitors. "You can see very strong, well-financed competitors in the US. And in Germany we also have very big companies as competitors - including the electricity companies." Second is the strength of the regulator. "And I have the very strong intention to be a very strong regulator."

Ralph Atkins

King in TV plea after Eta murder

By Tom Burns in Madrid

King Juan Carlos planned an appeal for calm and resolute opposition to violence in a television broadcast last night as the weekend murder by Eta, the Basque separatist group, of a kidnapped town councillor continued to shake the Spanish nation.

Hundreds of thousands of people, gripped by an unprecedented sense of outrage, gathered in central Madrid ahead of the King's address to the nation, for a protest march against the terrorists.

In an outpouring of revulsion that has taken political leaders by surprise, the entire country observed 10 minutes' silence at midday to commemorate Mr Miguel Angel Blanco, 29, a politician representing the centre-right Popular party on the town council of Ermua, deep in the Basque country.

Traffic stopped and office-workers came out on to the streets as the Prince of Asturias, the heir to the throne, and Mr José Maria Aznar, the prime minister, headed mourners at the funeral service for Mr Blanco in Ermua. Feelings were running particularly high in the Basque country where police have had to protect members of Herri Batasuna, Eta's political wing, against angry mobs.

Eta had given a 48-hour ultimatum saying it would kill Mr Blanco unless the government ordered jailed members of its organisation regrouped in prisons in or near the Basque country. But the two bullets one of its members shot into the back of Mr Blanco's head as the deadline expired have backfired on the terrorists and isolated their supporters.

Yesterday, the Basque Nationalist party, the mainstream political group in the Basque country, said it would no longer co-operate with Herri Batasuna in the Basque parliament and in the town councils where both hold sway. The two parties share the broad aim of an independent Basque country, but for the first time the moderates have come out forcefully against those who back Eta.

Amid signs that Eta's entrenched edifice is starting to crumble, a veteran Herri Batasuna leader condemned Mr Blanco's murder, saying he was considering withdrawal from politics. One Eta gunman, serving a 30-year jail sentence, announced a hunger strike in protest at the organisation's continuing violence.

This time, the industrial lobby groups have taken the battle to the environmentalists. And they have some patient groups on their side urging financial rewards for effective treatments.

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Debate on right to sell life's secrets

Euro-MPs consider gene patent law, write Daniel Green and Sander Thoenes

The European Parliament votes tomorrow on the complicated and divisive issue of gene patenting.

Those in favour of the draft directive claim that at stake is the viability of two of Europe's most important industries: pharmaceuticals and agriculture.

Both make use of genetic research. Every living thing has genes (people have about 100,000). Each gene is involved in the production of a protein which plays a role in how a living thing develops. One gene might be responsible for the lung disease cystic fibrosis and another for the rotting of tomatoes. By changing or removing the right gene, cystic fibrosis might be cured or tomato harvests increased.

The industries that rely on work with genes are among

Europe's fastest growing. Most companies are in the UK, but other countries are trying to catch up. Germany, for one, has launched a DM150m (\$84.7m) subsidy programme for commercialising biotechnology, partly because it sees employment opportunities there to offset job losses in older industries.

Patents are central to biotechnology in that it takes several hundred million dollars to develop a new drug. The developer has the drug's 20-year patent life to recoup the investment and make a profit.

Opponents say the directive would allow the "patenting of life" because genetic material is partly responsible for making living things the way they are. How can a royalty be charged for what is part of living plants and creatures, they argue.

There are also concerns that the draft directive could lead to the exploitation of developing countries, whose citizens' genes and crops contribute to the collective intellectual property.

For example, they fear coffee farmers in Ethiopia could end up paying royalties to large western corporations for growing the same coffee they have grown for decades,

just because the corporation patented a gene sequence that makes the coffee brand resistant to pests.

Some opponents of the draft directive, such as Professor Jacqueline McGlade of the Department of Biological Sciences at Warwick University in the UK, say this would extend the scope of what is patentable in Europe to include "all organisms".

"You could patent the oak tree by screening its genes for potential medical applications," she says.

However, lawyers such as Mr Richard Haeon, a London patent barrister who has advised industry and environmental groups, say this is not so. "Not a lot would change if the directive were passed," he says. "The European Patent Office (EPO) has already been granting patents on the things people are worried about". For example, the EPO granted a patent on Harvard University's "oncomouse": a mouse genetically susceptible to cancer which can be used for the testing of new cancer drugs.

The draft directive, proposed by the European Commission, would go before the Council of Ministers if the

parliament approves it. It would harmonise legislation on patenting biotechnological inventions throughout the 15 member states.

The difficulties in grasping the technical, scientific and legal arguments have raised the profile of more succinct moral objections to gene patenting.

"This is a highly technical directive and the deputies don't realise what's at stake," says Mr Antonios Trakellidis, a Christian Democrat MEP and biochemist from Greece. "If you give a patent on a gene you give a monopoly. Companies will be interested in 'conquering' as many genes as they can. This is really madness."

"It's like patenting a finger, a heart or a kidney," said Mrs Eleanor Gluckman, a French doctor who has protested against a US patent on umbilical cord blood, used to treat leukaemia. "You cannot patent a living thing like that, especially when it's used to treat patients."

Plant and animal breeders worry they will have to pay a licence fee on generations of cows and corn cobs.

Mr Peter Ruckebauer, of the Institute for Agricultural Sciences in Vienna, said

more jobs would be lost among small-time breeders because of the patent directive than would be created in the biotech industry.

"For farmers, it is very important to have an open market, so they can use the best genetic animals available," says Mr Wim Wisman, director at the Dutch Animal Breeding Regulations Board.

However, Mr Robin Nott, biotechnology patent specialist at solicitors Cameron McKenna, argues farmers would only buy genetically engineered seeds or animals if they brought a commercial return.

Many of these arguments are a re-run of two years ago when the European parliament threw out the last biotechnology patent draft directive.

Since then, some of the proposed provisions have been tightened: there are limits on how gene patents may be applied, and how they affect plant varieties.

This time, the industrial lobby groups have taken the battle to the environmentalists. And they have some patient groups on their side urging financial rewards for effective treatments.

Editorial comment, Page 15

Kohl backs speedy Polish entry to EU

By Ralph Atkins in Bonn

Chancellor Helmut Kohl yesterday described Germany's relations with Poland as the best in this century and gave strong backing for "speedy" Polish membership of the European Union.

Speaking after the first consultative conference between ministers of the two governments, Mr Kohl stressed the importance he attached personally to

extending the EU's borders beyond the river Oder. "Poland is a part of Europe and without Poland, the European Union is only a torso," he declared.

The meeting in Bonn was an attempt to put relations with the former Warsaw Pact country on a formal footing, with annual ministerial conferences similar to the twice-yearly Franco-German summits. Mr Kohl said Poland itself had to ensure that it met the conditions

for EU membership, but Germany would offer support in that process.

The ranks of ministers, however, were depleted by the absence of the Polish interior and defence ministers, who cancelled at the last minute because of the catastrophic floods which have hit southern Poland and the Czech Republic with the loss of at least 74 lives. The German federal government, which had already offered Poland more than

DM400,000 (\$225,000) in aid towards flood relief, promised yesterday to give further technical help. The Red Cross in Germany has also appealed for donations.

Poland is one of five countries judged by the European Commission to be ready to open accession negotiations with the European Union. Mr Jacques Santer, president of the Commission, will present a blueprint this week on enlargement to the Euro-

pean Parliament. Poland was also among three former Warsaw Pact states invited earlier this month to join Nato from April 1999.

Mr Kohl, who seven years ago oversaw an agreement ending disputes over the Polish-German border, said there was now a "new quality" to relations between the two countries. The summit saw agreement to deepen co-operation in cultural fields, youth exchanges and in medicine.

FINANCIAL TIMES
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GERMANY
Responsible for Advertising content: Colin A. Kennard. Printer: Hürthner International Verlagsgesellschaft mbH, Adminal-Rosenfeld-Strasse 36, 67253 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambart, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

FRANCE
Publishing Director: P. Maréchal, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 576 8254, Fax (01) 576 8253. Printers: S.A. Nord Editeur, 1521 Rue de Colbe, F-93100 Rosny-sous-Bois. Editor: Richard Lambart, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.

SWEDEN
Responsible Publisher: Hugh Carnegie 468 018 088. Printer: AB Kvalitetstryckeriet, PO Box 6007, S-550 06, Jönköping.

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Bigger is better in bourses' brave euro world



Preparing for Emu

One of the principal hopes of those who await the coming of the single currency with enthusiasm rather than trepidation is that continental Europe's financial markets - led by Frankfurt and Paris - will collectively become strong enough to compete with the biggest in the world.

For that to happen, many smaller bourses will have to disappear and larger ones will have to co-operate - on products, technology and strategy. The initial manoeuvring has begun, but the outcome is far from certain. National pride plays a strong role in the preservation of markets.

Ultimately, though, it will be the big institutional

Emu should give continental markets an opportunity to compete with the biggest in the world, writes Andrew Fisher in Frankfurt, but it is far from certain the chance will be seized

investors which will decide where they want to trade. They will go where the market is most liquid, the product range is most diverse and the back-office facilities are cheapest and most efficient.

In the Europe of the euro, there's no place and no need in the long term for 32 stock exchanges and 23 futures and options exchanges. Mr Rolf Breuer, chairman of Deutsche Bank, said at the recent Global 24 conference in Frankfurt, at which speakers from Europe, Japan and the US were linked by video.

He described monetary union as "one of the biggest chances, if not the chance of a lifetime, for Europe as a financial centre. It was an opportunity to gain competi-

tiveness against the markets of the US, Japan and the Asia-Pacific region by concentrating "the totally fragmented" markets in Europe.

This fragmentation of stock markets, settlement rules and legal systems represented "an endless row of mistakes, of falling behind of being latecomers in an integrated global world". While Emu would not be an automatic remedy for social and economic problems, it would be "an accelerator of immense dimensions".

It would help promote integration across Europe, "so that capital markets get an additional momentum to develop in a direction in which they ought to develop anyway".

Institutional investors

would thus be more attracted to Europe, said Mr Breuer, who is also supervisory board chairman of Deutsche Börse, which runs the Frankfurt securities and derivatives exchanges.

Companies should find that the cost of new debt issuance fell, while equity markets would become more transparent. The Emu zone would contain the world's third largest equity market, which Mr Breuer grandly forecast would be "the growth market of the coming years".

Not everyone shares this rosy view of the future. Although the tone of the conference was mostly positive, central bankers - notably Mr Eddie George, governor of the Bank of England - injected a cautious note by

pointing out that to achieve a stable, successful euro, governments needed to make their economies far more flexible and dynamic.

Foreign investors will be watching closely to see how well they succeed. Mr Yoshiaki Kaneko, senior managing director of the Tokyo Stock Exchange, said: "The key issue is whether the new currency, the euro, is strong and stable in future and also whether each country can satisfy the [Maastricht treaty] criteria, even after the start of monetary union."

For Japanese investors, securities issuers and financial intermediaries, "that's the most important thing". Since most institutional investors in Japan concentrated on dollar and sterling

investments, they were likely to wait and see how stable the euro became before deciding whether to shift more of their portfolios to Europe.

Mr Richard Grasso, chairman of the New York Stock Exchange, thought the main driving force in world capital markets in coming years would be continued privatisation and a further switch by companies from debt to equity financing. This would open up markets to a wider range of investors, as happened in the US in the past few decades.

This trend would be more important than technological advances in promoting the development of international capital markets, in and outside Europe. "When you create a common cur-

rency platform, you stimulate equity participation, you begin to develop a depth of investor participation in markets similar to the growth we experienced in the US."

In Europe, he expected Emu to act as an "accelerant", helping to promote the development of privatisation and other equity-oriented trends across the continent. "There will be a positive reshaping of the world's financial markets."

Mr Daniel Hodson, chief executive of the London International Futures and Options Exchange (Liffe), argued that London would remain dominant whatever happened. "The decision-makers are here. Investment banks, regardless of where they come from - Germany,

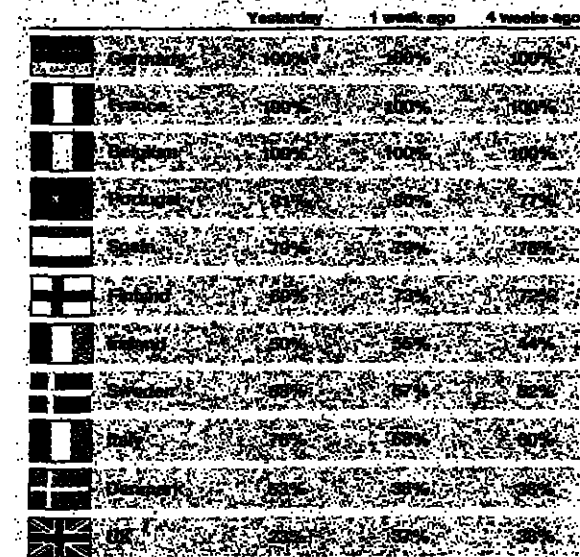
France and so on - are based in London."

Few would disagree with his assessment of London's strength. But Mr Jörg Franke, a Deutsche Börse executive, said the euro would increase competition between exchanges, and claimed the German derivatives exchange, Deutsche Terminbörse, would have an advantage through its electronic trading system.

Liffe and the DTB have recently indulged in a war of words over whether their competing strategies for the single currency era amount to war or competition. Clearly, technology will make it easier for institutions to decide where they want to trade. Nor does Mr Hodson think it will make much difference to London if the UK stays outside Emu. "London is virtually in Frankfurt and Frankfurt is virtually in London because of electronics."

Emu: who's going to make it

J.P. Morgan Calculator July 14 1997



The Emu calculator reveals, not only, the probability of individual countries joining Germany in a monetary union in 1999, but also the probability of the market probabilities are derived from the interest rate swaps market, in which investors swap floating-rate interest payments for fixed-rate ones.

The implied probability of Italy participating in Emu in 1999 can be calculated looking at where the spread between post-1999 fixed and D-Mark swap rates lies, between the zero level implied by Emu and the level we would expect if Italy is not in Emu. Italy's non-Emu spread is estimated by currency strategists at J.P. Morgan using the pre-1992 correlation of the line-D-Mark swap spread with similar spreads outside Europe.

Italy's chances of joining the inaugural round of European economic and monetary union in January 1999 have reached 75 per cent for the first time since the J.P. Morgan calculator was devised.

Economists say that Italy, which was given only a 50 per cent probability of joining Emu at the start of the year, has benefited strongly from the election of a Socialist-led government in France at the start of last month.

Mr Lionel Jospin, the French prime minister, promised during the election campaign to press for the inclusion of both Italy and Spain in the first round of Emu. Italy has also been helped by indications that both Germany and France are unlikely to meet the strict Maastricht criteria on budgetary deficits.

Italy's improving chances, which are calculated on the swap market's expectations of future interest rates, mean that Europe's proposed new currency markets expect a broadly based Emu to take place in 1999. "The

Odds shorten on Italy joining front-runners in Emu stakes

markets are basically saying that the euro will be a soft currency," said Mr Avinash Persaud, head of currency research at J.P. Morgan.

But analysts say that Italy is also being rewarded for its improving fiscal situation, with the latest estimates showing Italy's budget deficit falling to below 3.5 per cent of gross domestic product this year. Some are even expecting it to fall

to as low as 3.1 per cent, which would almost certainly represent an improvement on France's expected performance in 1997.

Under the Maastricht convergence targets, countries must aim for a sustainable budget deficit of 3 per cent of gross domestic product or below. President Jacques Chirac indicated yesterday that the 1997 French deficit was running at about 3.5

per cent of GDP.

Mr Mark Cliffe, chief international economist at HSBC Markets, says that Italy is also benefiting from the weakness of the D-Mark against the US dollar. This has encouraged investors to switch into Italian assets, including Italian government bonds.

"Europe's high-yielding currencies always profit from weakness in the

D-Mark," said Mr Cliffe. "This is usually the trigger for strong buying of Italian government assets." The spread of Italian bonds over the German benchmark bund fell below 0.9 percentage points yesterday for the first time.

However, Mr Mario Monti, an Italian EU commissioner, said it was not a foregone conclusion that Italy would be a founder member of the

euro. "Since the end of 1996 Italy has made big progress, but beware of being blinded by euphoria," he said.

Economists warn that the trend towards a broader Emu is likely to have political repercussions in Germany, where public opinion seems unconvinced of the merits of the single currency. Anti-Emu sentiment is expected to harden in Germany if Italy looks certain to be included in the first wave. "The more likely that Italy joins Emu, the more likely it is that Emu will be postponed," said Mr Persaud.

Edward Luce

Legal gunfight at the Novolipetsk corral

Chrystia Freeland witnesses a shareholder struggle with shades of the American West

Russia's most high-profile battle over shareholder rights erupted at a contentious meeting last weekend, pushing the Novolipetsk Metallurgical Kombinat, the country's largest steel producer, into legal limbo.

Outside investors, who are locked in a long-running struggle with managers for representation on the board of directors, on Saturday mustered enough votes to quash the company's charter, pushing the giant factory into a legal twilight zone and paralysing its management.

The outside investors portray the struggle at the steel mill as a landmark effort to defend shareholders' rights in Russia's still savage market economy. By contrast, the management, which is allied with Transworld, a powerful metals trading company, attacks the investors as speculators eager to make a quick profit at Russia's expense, with little concern for the long-term future of the plant or its workers.

Their struggle is the most prominent of an avalanche of similar disputes in Russia. Five years after Moscow began its mass privatisation

drive, once widely dispersed shareholdings are being consolidated into larger stakes. And, as in Lipetsk, in thousands of workplaces across the country outside investors and entrenched Soviet-era managers are battling for control of Russia's industrial patrimony.

The clash has transformed hundreds of Soviet-grey industrial cities into the backdrops for acrimonious conflicts resembling the legendary cowboy showdowns of the American West, with money and guns in wild abundance.

The battle for control in Lipetsk has created a bidding war for the few shares still owned by workers and small-scale local investors, turning a few canny steelworkers into millionaires in the past few months.

At the Novolipetsk plant meeting, bodyguards with short hair and thick brows appeared to outnumber the shareholders. A team of sharp-suited Moscow litigators representing the outside shareholders were made to check their guns and recording equipment at the door. A metal detector made sure they kept their promise.

But, at the meeting itself,

the outside shareholders, a loosely aligned group which includes Cambridge Capital Management and the Sputnik Fund, two western investment funds, and Oneximbank, one of Russia's most powerful commercial banks, carried the day.

Together, the group own just over 50 per cent of the plant's share capital and just over 45 per cent of voting shares. That gave them enough power to quash the management's proposed new company charter, a measure which means the company and its board of directors now have no legal status.

"The board of directors and the company charter now have no legal authority," said Mr Genrikh Padva, a Chadbourne and Parke lawyer representing the outside investors. "The company can continue to live, but any actions its management takes, including the conclusion of any contracts, could be disputed in court, and the court would probably rule the action invalid."

He added: "An even greater danger for them is that the state prosecutors could appeal to the judiciary and demand the liquidation of the enterprise."

The inside managers of the steel mill, a vast complex which produced 7m tonnes of steel last year, warned that the move could have devastating consequences for the plant.

Mr Vladimir Skorokhodov, chairman of the board, charged that "they [the outside investors] are pursuing a policy aimed at not ratifying the charter. This means the company will become legally non-existent, leading ultimately to its liquidation and the loss of jobs by its 50,000 workers."

But the steel worker-shareholders of the Novolipetsk plant seemed to have little fear of such apocalyptic developments. "We don't have a charter, but so what?" asked Mr Yevgeny Mashkov, the 49-year-old chief of the carpentry shop.

"A charter is just a sheet of paper, but the factory is here. You can't just make it vanish, can you?"

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NEWS: ASIA-PACIFIC

Malaysia is the latest victim of Asia's currency turmoil

Ringgit allowed to fall in Malaysia's tactical retreat

By James Kynge
in Kuala Lumpur

Malaysia has beaten back two big speculative attacks on its currency since mid-May with central bank interventions costing up to an estimated US\$200m. But yesterday, like Thailand and the Philippines before it, it succumbed to overwhelming pressure and allowed the ringgit - or Malaysian dollar - to depreciate significantly.

The relaxation was not, however, a surrender. Bank Negara, the central bank, has merely retreated to more defensible ground, dealers and economists said.

Dealers were surprised in early trade yesterday when it became clear that Bank Negara had abandoned the M\$2.5250 level it has been doggedly defending since the mid-May attack on the Thai baht. But when the ringgit fell to M\$2.55, a 16-month low, the bank intervened. In late trade, the currency had firmed slightly to around M\$2.53.

"People are not looking for a devaluation of the ringgit."

We are seeing a realignment of its trading range to reflect the other currency depreciations in the region," said Mr Kobus van der Wath, head of regional treasury economics at the Standard Chartered Bank in Singapore.

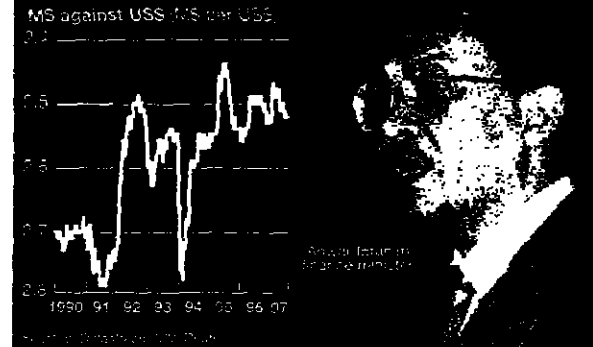
Observers said there were two main reasons for the central bank's change of heart. The first was that a continued defence of M\$2.5250 would have taken a further large chunk out of foreign reserves, which totalled M\$70bn in June. The second was that Malaysia's exporters, many of whom have seen lacklustre sales this year, have been losing out to counterparts in Thailand, the Philippines and Indonesia since those countries allowed their currencies to slide.

Treasury economists said that, judging by the fundamentals of the Malaysian economy, yesterday's depreciation in the ringgit might be sufficient. But, they acknowledged, fundamentals have little bearing on the decisions of speculators. "They have hammered the

baht and the [Philippine] peso and now they are hungry for the ringgit," said one dealer.

The other worry is that the longer the speculative threat continues, the greater is the risk that the fundamentals may turn sour. Short-term interest rates have risen dramatically, battering an already depressed stock market and raising the possibility that direct investment will slow as banks raise their base lending rates, economists said. The key three-month Klibor (Kuala Lumpur Inter-Bank Offered Rate) rose to 16.4 per cent yesterday compared with a closing price of 13.4 per cent on Friday.

Several large companies have begun to experience problems in raising equity finance for the infrastructure projects which increasingly drive the economy. Yesterday the stock market's leading index was down 20 per cent from its high in February this year; some recent share issues have flopped and several key company listings have been postponed indefinitely.



Several observers believe that Bank Negara could impose the same type of administrative controls as those tried by Thailand when the baht first came under attack. "They could freeze the ringgit swap market," said one dealer. "But if they did so, they would surrender some of their free market credentials."

In a sense, the bank has already nailed its colours to the mast. Mr Ahmad Mohamad Don, the governor, left little doubt last week that the bank is not about to throw in the towel in its struggle with speculators.

Few big winners in falling currencies

By Simon Kuper

The devaluations of emerging markets currencies have cost their countries dear. But the banks and hedge funds who brought down the currencies have made relatively small profits. That is because the three victims - the Czech koruna in May, and the Thai baht and Philippine peso this month - are relatively minor currencies.

Daily turnover in the baht is just \$14m. A bank may have profited from the baht's 15 per cent fall only to see its gains erased by an incorrect bet on the D-Mark.

There is none of the hand-rubbing at banks that went on in 1992, after they forced sterling and the lira out of the European exchange-rate mechanism.

Another reason for the lack of euphoria today is many speculators lost money when the Thai central bank defeated assailants in May.

The losses then were due to the peculiar way that currencies are attacked. Typically, a speculator bets against a currency by "shorting" it in the case of Thailand, he borrows bahts in order to sell them. Usually, he sells them in the "forward" market, where currencies are traded for delivery at a set date in the future. So the speculator may agree to sell a \$100m for dollars one month hence. He is betting that in a month's time, the baht will have fallen. If he is right he sells his baht for dollars at the price agreed in advance, buys the baht he has to repay at the new, lower price, and makes a profit.

Central banks have three main defences against this strategy. First, they can stop local banks from lending money to foreign speculators. Thailand did this by creating separate onshore and offshore baht markets. Second, they can raise interest rates. That makes it more expensive to borrow a currency. This happened in May, when Thailand raised rates so sharply many investors chose to repay their borrowed baht immediately. The problem with increasing rates is the domestic economy suffers.

Third, central banks can buy their own currency in the market but this is expensive. Thailand spent about \$200m trying to prop up the baht and subsequently having to bail out companies and institutions that suffered from its fall.

ASIA-PACIFIC NEWS DIGEST

Asean warned by Hun Sen

Mr Hun Sen, Cambodia's "second" prime minister, yesterday accused the Association of South East Asian Nations of interfering in his country's internal affairs, further threatening the country's prospective membership of the regional group. Mr Hun Sen, whose forces took Phnom Penh last week in fierce fighting, said he was considering withdrawing his country's application.

His warning to Asean comes a week after it decided to postpone Cambodia's expected entry indefinitely. It also came as King Norodom Sihanouk, who is in Beijing recovering after medical treatment, said he was powerless to resolve the crisis.

Mr Hun Sen also warned the international community against harbouring the "first" prime minister, Prince Norodom Ranariddh, who was effectively ousted in the fighting. Mr Hun Sen yesterday demanded the arrest and extradition of his rival co-premier.

"If anybody dares to protect [him], I can say that that foreign country is the defender of a traitor," he told reporters. The prince fled Cambodia on July 4 and has been campaigning for international sanctions against Mr Hun Sen.

AFP, Kampung Thom, Cambodia

INDIAN POLITICS

Party quits coalition

One of the main component regional members of India's United Front coalition withdrew from the government yesterday, citing frustration at internal political bickering.

The Tamil Nadu-based Dravida Munnetra Kazhagam said its 15 MPs would leave the 180-seat government, its leader criticising the "personal whims" and "private programmes" of other coalition partners.

The party's departure will not immediately threaten the UF's survival, however, with Mr Muthuvel Karunanidhi, DMK president, saying his party would continue to support the government "from outside".

But the DMK decision follows the formal split earlier this month of the UF's biggest component party, the Janata Dal and a subsequent and unresolved internal row over whether the breakaway Rashtriya Janata Dal formed by Mr Laloo Prasad Yadav, the legally embroiled Bihar leader, should be allowed to remain part of the UF.

Mark Nicholson, South Asia Correspondent

PRESIDENTIAL ELECTION

Narayanan's prospects strong

An electoral college of national and local legislators began voting for India's tenth president yesterday. In a virtual one-horse race expected to choose Mr K R Narayanan, 76, now vice-president.

Counting of votes and the announcement of the result are set scheduled for Thursday. The new president, to assume office for a five-year term this month, will take over three weeks before the 50th anniversary of India's independence on August 15.

If elected, Mr Narayanan would become India's first low-caste president. A former diplomat, he faces competition from Mr T N Seshan, former chief election commissioner.

Reuters, New Delhi

TAIWAN CHALLENGE

Lee plans to travel again

Taiwan said yesterday it would request a transit visa from the US for President Lee Teng-hui, a move likely to provoke an angry outburst from China. Mr Roy Wu, the Foreign Ministry spokesman, said an application for the visa would be lodged for Mr Lee's planned trip to a September conference in Panama.

The stopover would be the first time Mr Lee has touched down on US soil since his 1996 visit to Cornell University, his alma mater, drew a furious response from Beijing.

"We believe that, based on friendly relations and open communication channels between the two sides (Taipei and Washington), there shouldn't be any problems," Mr Wu said.

Laura Tyson, Taipei

Thailand intervenes to support baht

By Ted Bardacke
in Bangkok

Thailand's central bank intervened yesterday in the currency market, saying the baht had fallen too far, after the currency sank to record levels.

Spurred by the regional currency turmoil, the baht tumbled to a new record low of B\$30.80 in the domestic market before the central bank's announcement and intervention. By the close of trading, it had firmed to

B\$29.90, stronger than Friday's close of B\$30.75.

The action marks the second time central bank officials have announced an "appropriate" value for the Thai currency. Last week, they said it should be B\$27.50-B\$28.50, a level they did not attempt to defend.

"The baht has fallen 15 per cent since the new foreign exchange regime was introduced; the central bank thinks it is already at a level that is too low," Mr Chalaya Wat Wibusawasdi, central

bank deputy governor, said.

Analysts said that trying to set a level for the currency at this moment would have the effect of introducing more risk. "Either you have a floating currency or you don't," said Mr Paul Alapat, financial economist with Lehman Brothers in Hong Kong. "The way it's going, it will never settle."

Mr Rerachai Marakannond, Bank of Thailand governor, said the central bank had intervened, "but in a very small way". The bank

planned to keep the two-tier foreign exchange market and capital controls in effect. He predicted volatility in the foreign exchange market should subside by mid-week.

Thai financial officials will take up to two weeks to study rehabilitation proposals submitted by 16 suspended finance companies before deciding whether to allow talks to continue with potential partners or forcibly merge them with healthy competitors.

Central bank officials said most companies had submitted some sort of proposal, but the fact that only four had publicly announced such plans should be seen as an indication of their strength.

Among issues to be studied are whether a firm proposal by new investors has been made, whether finance companies will be allowed to sell only their securities operations, and the flexibility of foreign ownership limits, at present standing at 25 per cent.

Manila may seek new IMF backing

By Justin Marozzi in Manila

The Philippines may seek financial support of up to \$1.5bn from the International Monetary Fund and Japan's Eximbank to shore up dwindling international reserves, after last week's de facto devaluation of the peso.

The central bank, whose reserves are low compared with its south-east Asian neighbours, spent about \$1bn defending the peso. IMF Reserves fell to \$10bn, representing less than three

months' import cover.

"Every time we have a chance to increase reserves, we'll grab it," Mr Gabriel Singson, governor of the central bank, said. "I understand the managing director of the IMF is going to take it up at the board meeting this Friday."

The country's weakening reserves position was "the most important reason" for letting the peso move within a wider band. The IMF praised the move and pledged financial support.

Some \$600m is still available under the Philippines' IMF three-year extended fund facility, with an additional "augmentation" of \$450m.

The country had been due to graduate from IMF tutelage at the end of last month but has applied for an extension following the failure to pass the final component of the tax reform programme.

A further \$450m was "readily available" from Japan Eximbank, Mr Singson said, although no deci-

sion had been made yet to draw on funds from either organisation.

Analysts said the foreign debt position, standing at \$42bn, of which 17 per cent was short-term, had significantly improved. Given the economic fundamentals, one said, the Philippines would probably receive a credit upgrade to full investment rating within 12 months.

Done a good rescheduling of their short-term debt to longer and medium-term debt," said

Mr Roman Azanza, head of SocGen Crosby Securities in Manila.

According to the Department of Finance, for every 1 peso depreciation against the dollar, the government's debt burden would rise by 6bn pesos (\$200m).

As foreign exchange dealers wait for the peso to settle and find its new trading band, attention is still firmly focused on the key overnight borrowing rate, left unchanged at 32 per cent yesterday.

Liabilities surge over 106% to new high in first six months

Corporate bankruptcies reach an 11-year record in Japan

By Gwen Robinson in Tokyo

Japanese corporate insolvencies rose in the first half of this year to their highest level in 11 years. The bankruptcies increased 10.4 per cent to 857, with liabilities surging more than 106 per cent to a record ¥6,330bn (\$55.6bn), according to Tokoku Databank, a private research agency.

The previous record for any six-month period was ¥3,500bn, in the first half of 1985.

The increase in liabilities reflects the extent of financial problems still haunting companies with outstanding debts from the "bubble economy" era of the late 1980s.

due primarily to the simultaneous failures of three private financial institutions affiliated with Nippon Credit Bank, which is now undergoing restructuring. The three NCB affiliates, Crown Leasing, Nippon Assurance Finance Service and Nippon Total Finance, filed for bankruptcy in April with debts exceeding ¥2,180bn.

Without these three failures, the continuing high number of corporate bankruptcies illustrates how Japan's economic downturn in the past four years has compounded the bad-debt problems among companies across many sectors.

Nearly 65 per cent of all bankruptcies in the six-month period were blamed

on poor economic conditions, according to Tokoku Databank. Failures in the building sector surged; those among wholesalers showed marked increases.

Among specific reasons, "poor sales" were cited in 4,119 cases, up from 3,708 last year; "tax management" was blamed for 1,337 failures, up from 1,318.

Bad debts caused 300 corporate failures, up from 173 the year before, the agency said.

In June alone, corporate bankruptcies rose nearly 20 per cent year-on-year to 1,340, though total liabilities for the month fell nearly 40 per cent to ¥403.88bn.

The drop in liabilities led some analysts to predict the

scale of bankruptcies might be declining, as more large companies resolve their bad-debt problems and complete restructuring programmes.

The unexpected collapse on July 4 of Tokai Kogyo, a medium-sized general contractor, with ¥510bn in debt has reawakened fears that further big bankruptcies are yet to surface.

On the Tokyo stock market, construction-related issues and those of debt-laden companies have fallen sharply in response to the news. Tokai Kogyo ranked as the eighth biggest collapse since the end of the second world war. Its failure will boost total liabilities from bankruptcies in the second half of this year.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES					JAPAN					GERMANY					
Consumer prices	Producer prices	Unit labour costs	Real exchange rate	Real wage rate	Consumer prices	Producer prices	Unit labour costs	Real exchange rate	Real wage rate	Consumer prices	Producer prices	Unit labour costs	Real exchange rate	Real wage rate	
1986	101.9	98.6	102.1	98.0	95.0	100.9	98.3	101.4	102.7	118.5	99.9	97.5	103.5	103.8	107.5
1987	105.8	100.7	103.9	98.4	76.1	101.2	97.7	100.0	102.9	118.5	100.1	98.0	107.9	107.1	111.0
1988	109.9	103.2	106.8	100.2	71.0	102.3	99.2	100.8	103.0	118.5	101.2	98.2	108.9	108.0	110.0
1989	115.2	108.5	109.9	101.9	74.9	105.1	94.2	114.0	98.6	123.5	104.2	99.3	117.1	108.0	107.6
1990	121.5	113.9	113.5	104.9	79.0	108.3	120.1	99.7	108.2	107.0	107.0	101.0	123.5	110.3	110.0
1991	126.6	116.3	117.3	108.4	74.1	111.9	98.8	104.2	103.2	113.2	110.9	103.4	131.3	108.7	107.6
1992	130.4	117.7	120.1	108.3	74.0	114.0	98.9	126.6	112.8	114.5	118.5	104.9	138.2	115.4	111.5
1993	134.3	119.2	123.1	108.2	76.3	115.4	94.3	126.6	112.8	114.5	121.7	105.1	145.6	118.3	111.4
1994	137.8	121.9	126.5	108.0	74.2	118.2	92.6	128.4	118.5	117.4	125.1	105.7	150.8	111.7	109.9
1995	141.7	122.2	128.7	108.3	68.7	115.9	92.0	130.5	118.5	116.3	127.4	107.5	155.8	110.7	109.9
1996	145.8	125.4	134.0	108.1	73.5	115.6	91.3	138.8	113.3	118.6	128.3	107.1	159.6	109.9	109.9
3rd qtr.1996	2.9	2.9	3.3	-0.1	73.5	0.0	-0.8	4.6	-4.0	117.7	1.5	-0.6	-2.7	109.9	
4th qtr.1996	3.2	3.0	3.5	-0.5	74.3	0.1	-0.6	2.0	-3.4	114.0	1.4	-0.3	-1.6	101.5	
1st qtr.1997	2.9	2.1	3.6	-0.1	77.9	0.0	-0.3	5.2	-5.0	110.0	1.7	0.6	-5.5	106.3	
2nd qtr.1997	2.9	0.3	3.8	-0.1	78.0	0.0	-0.3	5.2	-5.0	110.0	1.6	0.6	-5.5	106.3	
July 1996	2.9	2.6	3.2	-0.1	73.5	0.4	-0.8	3.6	-5.4	118.1	1.6	-0.7	n.a.	-2.0	110.0
August	2.9	3.0	3.5	0.1	75.1	0.0	-0.7	2.9	-2.6	118.5	1.4	-0.7	n.a.	-4.0	110.5
September	3.0	3.0	3.4	0.4	73.8	-0.4	-0.6	3.0	-4.0	118.6	1.4	-0.6	n.a.	-3.9	108.2
October	3.0	3.1	3.3	-0.4	74.2	0.0	-0.8	2.8	-4.4	114.8	1.5	-0.3	n.a.	-3.9	108.2
November	3.3	3.0	3.6	-0.4	73.6	0.1	-0.6	2.6	-3.0	114.0	1.4	-0.3	n.a.	-4.9	108.4
December	3.3	2.8	3.7	-0.3	75.0	0.2	-0.4	1.4	-2.8	113.2	1.4	-0.3	n.a.	-4.9	108.4
January 1997	3.0	2.5	3.0	-0.2	75.5	0.0	-0.4	9.8	-6.8	111.3	1.8	0.7	n.a.	-4.9	107.4
February	3.0	2.2	3.5	0.0	76.3	0.1	-0.3	3.1	-2.1	109.1	1.7	0.6	n.a.	-4.9	106.8
March	2.8	1.6	4.3	-0.2	78.1	0.0	-0.2	2.7	-6.0	109.4	1.5	0.7	n.a.	-4.0	105.8
April	2.5	0.8	2.8	0.0	78.3	0.0	-0.2	2.7	-6.0	109.4	1.4	0.9	n.a.	-4.0	105.8
May	2.2	0.3	3.0	0.0	77.8	1.4	1.7	3.0	-1.8	114.4	1.6	1.1	n.a.	-4.0	105.8
June	-0.1	-	-	-	76.8	1.2	1.6	-	-	120.3	1.7	1.1	n.a.	-4.0	105.8
FRANCE					ITALY					UNITED KINGDOM					
Consumer prices	Producer prices	Unit labour costs	Real exchange rate	Real wage rate	Consumer prices	Producer prices	Unit labour costs	Real exchange rate	Real wage rate	Consumer prices	Producer prices	Unit labour costs	Real exchange rate	Real wage rate	
1986	102.5	98.0	104.5	101.8	104.4	101.1	99.4	104.6	101.3	103.4	101.4	107.7	104.0	94.3	
1987	105.9	98.1	107.8	103.0	104.8	111.0	102.2	111.6	106.5	102.2	107.7	104.9	116.3	94.7	
1988	108.8	102.9	111.5	104.1	102.2	116.5	105.7	118.8	107.1	101.0	108.7	126.2	109.2	102.0	
1989	112.6	108.2	115.8	105.2	99.8	124.2	112.0	128.6	112.3	105.3	121.8	113.9	137.2	114.0	
1990	116.5	107.1	121.5	106.8	102.0	131.7	116.2	134.7	118.8	112.0	133.3	121.0	150.1	112.0	
1991	120.2	105.9	127.1	113.4	100.8	140.9	120.0	147.9	129.6	113.2	141.2	127.5	148.4	104.4	
1992	123.1	104.3	132.3	115.6	104.3	147.7	120.8	156.9	138.6	113.2	146.1	131.5	173.1	128.5	101.0
1993	125.6	107.6	136.6	118.1	106.7	153.9	126.9	161.6	139.9	115.2	148.4	136.7	180.9	128.9	94.2
1994	127.7	107.2	138.2	106.2	106.2	160.0	131.8	167.0	138.1	93.4	152.4	146.6	180.9	128.9	94.2
1995	130.0	108.7	141.5	108.4	106.2	168.6	146.0	172.2	138.1	90.4	157.6	146.0	180.9	128.9	94.2
1996	132.6	105.6	144.8	108.3	106.3	175.0	144.7	175.3	102.7	102.0	161.5	149.8	205.8	138.4	93.3
3rd qtr.1996	1.9	-4.2	2.6	106.2		3.5	0.4	1.7	0.7	102.7	2.2	2.1	4.5	4.6	93.0
4th qtr.1996	1.7	-3.9	2.6	105.8		2.7	0.8	0.6	0.6	104.6	2.6	2.0	4.6	3.4	99.6
1st qtr.1997	1.5	3.0	3.0	103.5		2.4	0.8	3.9	104.0	102.0	2.7	1.2	4.1	2.5	107.5
2nd qtr.1997			2.7	102.9											103.4
July 1996	2.3	n.a.	n.a.	n.a.	106.5	3.8	0.3	1.9	n.a.	102.8	2.2	2.2	4.4	3.9	93.2
August	1.8	n.a.	n.a.	n.a.	106.1	3.4	0.4	1.9	n.a.	102.2	2.1	2.1	4.5	4.2	96.1
September	1.8	n.a.	n.a.	n.a.	106.2	3.4	0.5	1.3	n.a.	100.2	2.1	2.2	4.5	4.2	96.1
October	1.8	n.a.	n.a.	n.a.	106.5	3.6	0.7	1.5	n.a.	104.8	2.1	2.2	4.5	4.2	96.1
November	1.6	n.a.	n.a.	n.a.	105.9	2.6	0.9	1.5	n.a.	103.9	2.7	2.3	4.0	3.6	96.1
December	1.7	n.a.	n.a.	n.a.	106.1	2.6	0.9	1.8	n.a.	105.5	2.8	2.1	4.7	4.0	100.2
January 1997	1.8	n.a.	n.a.	n.a.	103.0	2.6	0.9	3.9	n.a.	106.2	2.8	1.5	5.1	2.8	102.5
February	1.8	n.a.	n.a.	n.a.	105.9	2.4	0.8	3.9	n.a.	102.1	2.6	1.0	4.8	2.7	104.9
March	1.1	n.a.	n.a.	n.a.	103.8	2.2	0.9	4.0	n.a.	103.9	2.7	1.2	4.8	2.6	108.3
April	0.9	n.a.	n.a.	n.a.	103.4	1.7	0.8	3.9	n.a.	102.1	2.6	1.0	4.3	2.4	106.1
May	0.9	n.a.	n.a.	n.a.	103.0	1.6				102.1	2.4	0.8	3.9	1.6	108.2
June	0.9	n.a.	n.a.	n.a.	102.2					101.8	2.9	1.1			107.8

Washington offer to ease market restrictions boosts prospects of liberalisation

US lifts financial services hopes

By Frances Williams
in Geneva

Prospects for global liberalisation of financial services were boosted yesterday by a new offer from the US, which would give foreign companies virtually unrestricted rights to compete in its vast market.

The offer, ahead of a meeting of World Trade Organisation financial services negotiators on Thursday, removes an important restriction in the previous US proposal which guaranteed access to its market only for the existing

operations of foreign companies.

Washington is now extending this guarantee to all foreign institutions and to new or expanded financial services. However, the offer is conditional on a satisfactory overall deal being reached by the December 12 deadline for completing the WTO negotiations.

In 1985 the US walked away from a WTO accord liberalising banking, insurance and securities services on the grounds that a number of important developing countries had not gone far enough in opening up their

domestic markets. A stop-gap deal, involving the European Union and other WTO members, expires at the end of the year.

Mr Robert Rubin, the US treasury secretary and Ms Charlene Barshefsky, the US trade representative, said yesterday that they expected emerging markets to improve "significantly" on their initial offers, to "establish a level playing field for US firms to compete effectively".

US negotiators have expressed disappointment that Japan's offer, tabled last Friday, did not include firm

WTO commitments on the bilateral agreement between the US and Japan to open its insurance sector.

Senior negotiators from the US trade representative's office and the US treasury will be travelling to nine countries in Asia next month to stress the need for more market opening. Their itinerary includes Japan, South Korea, Malaysia, Indonesia, the Philippines, Thailand and India.

Financial services negotiators had set a deadline of yesterday for improved offers in the talks - but only the Quad powers (the US,

EU, Japan and Canada) and a scattering of others seemed likely to have met the target.

The EU submitted its offer earlier this month, while Canada's offer is imminent. Most other countries have said they will not be ready to submit proposals before September.

Other improvements in the latest US offer would give foreign banks equal treatment with domestic ones in opportunities arising from recent liberalisation of interstate banking, and remove some residency and citizenship requirements for foreign insurers.



VW's assembly plant near Bratislava: the factory has been developed for low-volume niche vehicles

Chile stresses bilateral accords

By Stephen Fidler,
Latin America Editor

Simmering trade disputes between Chile and the US have emphasised the importance of Santiago's network of bilateral trade agreements, according to a Chilean trade negotiator.

Mr Juan Gabriel Valdes said disputes with the US over salmon and wood products had shown that a multi-lateral approach to trade relations was not sufficient for a small country.

Bilateral agreements "provide a mechanism for conflict resolution and to deal with arbitrary decisions, particularly the abuse of anti-dumping laws against which we don't have a defence. It means your economic weakness in terms of size will not count against you," he said.

The Chilean salmon industry faces an anti-dumping complaint from US producers, which some years ago successfully pursued a similar case that effectively barred Norwegian producers from the US market. Chile sells about one-third of its annual \$538m of salmon exports to the US.

The other case concerns a US court decision to block imports of wood products, taken against the wishes of the US Department of Agriculture, because of a supposed disease risk. "We are not exporters of chips and logs, but of processed wood for furniture," he said.

Chile is next in line for admittance to the North American Free Trade Agreement, but has suspended negotiations with the US, Canada and Mexico until the US Congress provides the administration with "fast track" authority. This allows the administration to negotiate trade deals without a line-by-line veto.

Chile, which already has a free trade accord with Mexico, has just approved a NAFTA-compatible agreement with Canada.

Power equipment hunt heats up

Cosy ties between utilities and suppliers are being broken, writes Stefan Wagstyl

Leading makers of electrical power and transmission equipment are on the lookout for acquisitions.

The industry, with an estimated annual turnover of \$60bn, has long lived in the shadow of the power generation equipment producers. Manufacturing overhead cables, switches and transformers has rarely attracted the same interest as building power stations worth \$1bn and more.

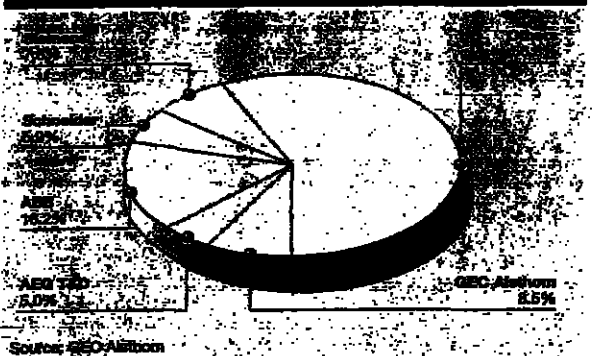
Yet the same pressures which have promoted globalisation of the power generation industry are now acting on the transmission and distribution (t&d) market.

Growing deregulation and privatisation of the global electricity industry is breaking the cosy ties which once existed between state-owned utilities and local equipment suppliers.

Prices are falling fast, putting pressure on margins and costs, and creating opportunities for international groups at the expense of local manufacturers.

This is especially true in the \$20bn-a-year market for high-voltage and medium-voltage equipment for distributing power around regions and cities and in industrial sites. Low-voltage

T&D world market shares



equipment, such as household wiring, mostly remains a local industry.

Globalisation has in the past few years forced mergers in power generation equipment. Today, the six leading makers - General Electric, Westinghouse of the US; Siemens of Germany; ABB, the Swiss-Swedish group; Mitsubishi Heavy Industries of Japan, and GEC-Alsthom, the Anglo-French company - together have an estimated market share of 80 per cent in power generation.

But t&d has so far remained a far more fragmented business, with the top four makers - ABB, GEC-Alsthom, Siemens and

Schneider of France - accounting for only about 45 per cent of the world market for high- and medium-voltage equipment.

Industry executives think these big companies will increasingly grab a larger share of the market through sales growth and acquisition. "National markets are breaking up," says Mr Rainer Bittsch, a director of Siemens power and transmission division. "I expect to see more consolidation."

Mr Robert Mahler, managing director of GEC-Alsthom's t&d division, says: "Our customers are going international. So we must offer our services and prod-

ucts globally. I think we'll see more mergers and joint ventures."

Some consolidation has occurred. ABB, formed from Asea of Sweden and Switzerland's Brown Boveri, and GEC-Alsthom, a joint venture between GEC of the UK and France's Alcatel Alsthom, are the results of mergers in the late 1980s.

ABB later established itself as the world's biggest supplier by buying the t&d activities of Westinghouse. Last year, GEC-Alsthom bought from Daimler-Benz of Germany the bulk of its AEG power distribution business, for about DM400m (\$225.9m).

The European manufacturers see North America as prime territory for further expansion because of the absence of a strong domestic producer since Westinghouse sold its business to ABB.

GE, the leading domestic power generation equipment maker, has only a modest t&d business, though it does operate in important niches, for example, in a joint venture in high-voltage transmission with Hitachi of Japan and in another established this year with Harris Corporation, in computer-controlled power manage-

ment systems.

GE has been cautious about t&d because much of the equipment is relatively bulky to make, notably cables and basic transformers. So, much of the business in t&d has gone to local suppliers, even in developing countries. But belief is growing among European manufacturers that the picture could change.

Electricity producers no longer seek the cheapest equipment at the lowest purchase price, but are interested in value-added services such as after-sales repair and maintenance deals. Mr Mahler says: "The pendulum is swinging back in favour of big suppliers who can offer better service to customers."

Technology is playing into the hands of the larger companies, which are able to concentrate on high-margin innovative products such as maintenance-free switches installed in vacuum chambers.

Further into the future loom other innovations with possible commercial applications, including fuel cells - gas-powered devices for storing energy - and superconductors. More important is the rapid development of software for integrating and controlling power networks.

VW to double Slovak output

By Kevin Done,
East Europe Correspondent

Volkswagen of Germany, the leading European car producer, is planning to double car production in Slovakia to more than 80,000 next year from 30,000 in 1996.

The car assembly operation is to move to three-shift, round-the-clock working later this year, as the plant's capacity is raised from 180 a day to around 300 in 1998.

The German carmaker began hesitating in Slovakia in the early 1990s. But during the past four years it has rapidly developed its plant on the outskirts of Bratislava for both car assembly and gearbox and components production.

VW, which moved operations eastwards partly to offset high costs in Germany, has emerged as the leading foreign industrial investor in Slovakia. Car output, which totalled 3,000 in 1993, is expected to rise to 35,000-40,000 this year.

The Bratislava workforce will be raised to around 2,800 by the end of the year from 2,000 a year ago, and is likely to rise to over 3,000 in 1998. VW has moved all production of its four-wheel-drive

Golf Syncro family hatchbacks and estate cars to Bratislava from Wolfsburg, its main plant in Germany. The Slovak operation is the only plant producing the sophisticated top-of-the-range, four-wheel-drive Golfs for the world market.

The plant has been developed for low-volume assembly of niche vehicles, which can be produced much more cheaply in a flexible, labour-intensive plant with low labour costs - as yet the plant still has no robots - than on the highly automated, capital intensive assembly lines of VW's big German plants.

The company is investing around DM250m (\$57m) at the plant in 1997 and 1998, after investment of around DM185m in 1991-1996. It will begin output of the new generation front-wheel-drive Golf in the autumn.

Assembly will start next year of a second range of high-performance gearboxes, which will be used across the group's four VW, Audi, Skoda and Seat brands.

Total transmission output at the plant is planned to rise to between 380,000 and 400,000 next year from 280,000 this year.

In 1996, LG invested over US\$9 billion to grow its business.



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NEWS: INTERNATIONAL

Hopes rise on common accounting standards

By Jim Kelly
Accountancy Correspondent

The chances of the world's leading stock markets allowing companies to list using one common set of accounts improved yesterday after a marathon meeting called by global standard-setters in Beijing.

Sir Bryan Carsberg, secretary-general of the International Accounting Standards Committee, said the meeting had approved two new stan-

dards and five draft standards - putting it on course to meet the deadline set by securities regulators.

In June next year the committee is due to deliver a completed set of core standards to IOSCO - the club of the world's leading stock market regulators - for eventual endorsement.

The Beijing meeting saw the standard-setting body back two accounting treatments which follow the UK's code rather than that of the

US - the world's dominant financial reporting framework. The committee is anxious that its framework is seen as genuinely independent.

"Sometimes people say we are getting too close to the US. This is pretty clear evidence we debate these things out," said Sir Bryan.

The only part of the core programme required by IOSCO which has no standard or draft is that on financial instruments. Many observers believe this area

may be placed on a separate track in order to allow the rest of the programme to be endorsed in 1998.

But Sir Bryan hinted that a breakthrough might be possible at the IASB's next meeting in Paris in late October. "The timing is looking pretty tight on that - I can't give any firm idea of what the future will hold. But don't assume that we are necessarily going to be running late - it's finely balanced."

The committee agreed standards on presentation - how the accounts are laid out - and on segments - the way in which accounts should reflect the different parts of the business rather than merely aggregating data. Draft standards were agreed on how to account for discontinuing operations, intangible assets, business combinations, interim reporting and how to account for provisions and contingencies.

The committee has taken the UK line on amortisation of goodwill - the difference between the value of a whole business and its separate assets. The committee will lift its 20-year maximum period for amortisation but thereafter will require an annual impairment test to check the asset's value.

The committee has also taken up controversial UK plans to limit a company's ability to make provisions. Management will have to demonstrate a specific commitment to incur future costs before a provision is allowed to meet them.

Harare braced for more industrial action

By Tony Hawkins
in Harare

Zimbabwean business is bracing itself for further industrial action following a rash of strikes and go-slows which have hit industrial sectors ranging across the economy.

Last week's stoppages and go-slows affected the construction, clothing, security, railway and communications industries, resulting in a rash of pay settlements of over 30 per cent.

The industrial unrest and pay awards are expected to undermine government efforts to curb the deficit in the budget, to be presented next week.

The government, which claims to have convinced the IMF of its seriousness in tackling a budget deficit of more than 11 per cent of GDP, set the ball rolling early in the month when it conceded an award of over 30 per cent to public servants.

With "performance awards", this settlement will cost over Z\$11bn (US\$966m) over the next 18 months, equivalent to 8 per cent of next year's forecast GDP of around Z\$140bn (US\$12.2bn) at current exchange rates.

Private-sector employers, many of which had been hoping to keep wage awards below the forecast inflation rate for this year of 24 per cent, were taken unawares by the government award to public servants. Labour unions have been quick to interpret the settlement as the norm for the economy.

The catering industry offered workers 34 per cent to cut short a stoppage in the hotel industry, but employees are demanding a larger increase.

At the weekend, employees at the state-owned Posts and Telecommunications called off their industrial action after being offered 22 per cent plus a 53 per cent increase in allowances.

The Commercial Workers Union settled for 30 per cent but talks are continuing on increased fringe benefits, while workers in the clothing, construction and security industries and at the national railways remain on strike.

There is also a go-slow at the country's main insurance company, the Old Mutual, and warnings of stoppages in other sectors including banking and some parts of the transport industry.

The industrial unrest does not come as a surprise given the steep fall in real earnings since the launch of the World Bank's structural adjustment programme in 1990. Since then, average earnings across the economy have risen 144 per cent from Z\$7,040 a year to Z\$17,150 last year.

After adjustment for inflation, however, real earnings have plummeted 40 per cent as nominal wages have fallen far behind inflation, which has averaged over 25 per cent annually.

Trade union anger has also been fuelled by rapidly escalating unemployment.

Since 1990, less than 50,000 jobs have been created, in a period during which more than 900,000 people have entered the labour market. Unemployment is currently estimated at around 35 per cent.

Inflation fuelled by strikes and pay settlements will undermine government efforts to curb its deficit. In budget plans to be announced on July 24,

World Bank to assess policy impact on poor

By Mark Suzman
in Washington

The World Bank has launched a wide-ranging review in conjunction with national governments and citizens' organisations groups in developing countries to assess the full social and economic impact of its policies on the poor.

Mr James Wolfensohn, World Bank president, said yesterday at the first global forum of the Structural Adjustment Participatory Review Initiative that the programme marked a crucial step towards overcoming the "incredible antagonism" that had come to characterise the relationship between the Bank and many governments and "civil society" groups - non-governmental organisations.

"This has to be a joint exercise," he said. "I don't think the Bank can do this alone. There has to be a three-way partnership."

The initiative, known as Sapri, will initially be carried out in seven countries: Ghana, Mali, Uganda, Zimbabwe, Ecuador, Hungary and Bangladesh.

Mr Wolfensohn said efforts were being made to encourage some larger emerging markets, particularly in Latin America, to participate

but so far the Bank had not been able to get the necessary governmental consent.

Sapri grew out of discussions between the World Bank and representatives of about 500 non-governmental organisations with the aim of developing a study to examine the impact of structural adjustment policies on people who have not benefited or participated in the programmes.

The NGOs have argued that development policies have often been particularly harmful to the poorest sections of the population, and accused the World Bank of failing to make proper use of local information in planning new policies.

The initiative's principal objectives are to demonstrate that participation of broad-based civil society can improve economic policy-making and to identify "practical and necessary" steps to improve the life of ordinary people in each country.

In each participating country, a national steering committee comprising representatives from NGOs, the government and the World Bank will be set up to coordinate a series of public forums and field studies to examine the issue.

Joint bid to end Hebron clashes

Palestinian and Israeli forces yesterday worked together to restore calm to the West Bank town of Hebron following three weeks of clashes in which more than 150 youths were injured, Judy Dempsey reports from Jerusalem.

The move follows talks between senior Israeli and Palestinian security officers at the weekend when they also agreed to resume joint patrols in parts of the West Bank and reopen shops close to Hebron's Jewish quarter.

Some 200 Palestinian policemen stood on the invisible border dividing the 80 per cent of Hebron handed over to PLO self-rule from the 20 per cent held by Israel.

The co-operation comes in the wake of a meeting between Mr Yitzhak Mordechai, the Israeli defence minister, and Mr Nabil Shaath, Palestinian chief negotiator. They said they had discussed the long overdue opening of an airport in Gaza as well as establishing a safe corridor between Gaza and the West Bank.

Such measures, they said, could help restore confidence and revive peace talks suspended since March when Israel started work on a new Jewish settlement in east Jerusalem.

Airport jewel in Palestinian crown

Fate of important symbol of sovereignty rests with Israel, says Judy Dempsey

The road leading south from Gaza City cuts through orange groves, skirts along Jewish settlements and eventually comes to a heavily guarded Palestinian roadblock.

It is no ordinary checkpoint. The soldiers are manning what will soon become one of the most important institutions of Palestinian statehood - Gaza International Airport.

Behind the high fences and the high arches of the Islamic-style terminal buildings, the runway and control tower are all but finished.

Work on the departure and arrivals terminals is going flat out in the hope of completing the airport in a few months.

But completion will not lead automatically to the opening of the airport. Its fate rests with the Israeli government, which in the coming weeks will decide if it will allow the airport to open as a gesture to restart the peace talks.

The Israelis are concerned that a Palestinian airport would provide a conduit for weapons and terrorists. Nevertheless, they signed up to



Palestinian policemen in Hebron yesterday tries to cover the camera

a formula in the 1995 Oslo accords which allowed members of the Palestinian Council to fly in and out of Gaza.

Nothing specific was said at that time about building an airport for Palestine - although "provisional airstrips" were sanctioned. Even so, the Palestinian Authority started 18 months ago carving out a 2.3 sq km plot of land for its new airport. Since then, both sides have argued over security arrangements while the Palestinians have pressed ahead with the foundations.

It was only after the signing of the Hebron agreement last January that a special Israeli and Palestinian committee was set up to deal with Gaza airport. "We are now waiting for the political green light from the [Israeli] government," said an Israeli spokesman.

Mr Fayed Zaidan, chairman of Palestinian National Airlines, chairman of the Palestinian Civil Aviation Authority and head of the Palestinian airport negotiating team, said most of the problems with the Israelis had been ironed out. "The Israelis know how much this airport means to our statehood. I think this is one of the reasons why they are dragging their feet," he said.

The Israelis say it is about establishing the security criteria. Sitting in his Gaza City office, decorated with small model aircraft and a huge picture of the new airport, Mr Zaidan spelt out what he believed had already been agreed in principle.

"Although we have not yet signed the protocol, it has been agreed that the director general of the airport be Palestinian and not Israeli, which the Israelis first wanted, and that the airport police be Palestinian," he explained.

But Mr Zaidan added there would be a joint Israeli and Palestinian team in one of the security rooms and a joint air traffic control office "for co-ordination". To meet Israel's security concerns, the Palestinians would allow the Israeli authorities to see the passenger list in

advance, and along with Palestinian ground staff, to escort aircraft to the parking positions. "And above all, Israel will have sovereignty over the airspace," added Mr Zaidan.

If there is any sticking point, it is the Palestinians' insistence that Israel should not be allowed to decide unilaterally which outside airlines can use Gaza.

Although talks between both sides have remained suspended since Israel's decision to build a new Jewish housing settlement in south-east Jerusalem, Mr Zaidan has secured enough financial backing to build the airport.

Egyptian banks have provided \$18m in soft loans to finance part of the civil works. The Spanish government has provided \$4.5m for fire-fighting material, equipment, buses and conveyor belts and an additional \$21.5m in soft loans for maintenance, radar stations and air traffic control equipment. Germany has donated \$10m worth of navigation aids and other landing signals equipment.

The airport will be able to handle 500,000-750,000 passengers a year. More crucially, it will give the narrow Gaza Strip a window on the outside world, increasingly important for an economy cut off from the West Bank and often from Israel because of regular closures.

"The airport will boost investment. But above all, it is important for our sovereignty. It will be the crowning moment of my career," said Mr Zaidan.

After adjustment for inflation, however, real earnings have plummeted 40 per cent as nominal wages have fallen far behind inflation, which has averaged over 25 per cent annually.

Trade union anger has also been fuelled by rapidly escalating unemployment.

Since 1990, less than 50,000 jobs have been created, in a period during which more than 900,000 people have entered the labour market. Unemployment is currently estimated at around 35 per cent.

Inflation fuelled by strikes and pay settlements will undermine government efforts to curb its deficit. In budget plans to be announced on July 24,

Algiers bomb kills 21 amid surge in violence

By Roulia Khafiz in London

A bomb exploded in the crowded market of an Algiers suburb yesterday, killing 21 people and wounding 40.

The explosion in Baraki came amid a surge in violence which has left more than 300 people dead since the June legislative elections, which the army-backed government claimed would help reduce the five-year violence.

The explosion, which the government blamed on extremist Islamist groups, was the worst bomb attack in the capital since last February. A blast in an Algiers

cinema, last Wednesday left 20 people dead.

Newspapers also reported yesterday that armed bands killed 44 people in three separate massacres on Sunday, in villages in Medea, 100km southwest of Algiers. One newspaper said the armed groups kidnapped 21 girls from a village.

News agencies reported from Algiers yesterday that the bomb was hidden in a bag and left in the market, as has been the case in other attacks. On Sunday, the government promised to enforce security measures that it had issued last month and step up searches in public places.

The June elections, which swept pro-government parties to victory, had excluded the Islamic Salvation Front (FIS), the party which had been stripped of an election victory in 1992, the event which provoked Algeria's descent into chaos.

In spite of the upsurge in attacks in recent weeks, foreign ministers from 11 Mediterranean countries gathered in Algiers last weekend for an informal meeting to advance co-operation between countries on both sides of the Mediterranean. The event was seen as an important step in Algeria's attempts to emerge from its international isolation.

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Algiers bomb kills 21 amid surge in violence

By Roulia Khafiz in London

A bomb exploded in the crowded market of an Algiers suburb yesterday, killing 21 people and wounding 40.

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Clinton backs healthcare ban on genetic discrimination

By Gerard Baker
in Washington

President Bill Clinton yesterday backed legislation that would make it illegal for US health insurance companies to discriminate against healthy people on the basis of their genetic inheritance.

The president endorsed a report by the Department of Health and Human Services that recommended closing loopholes in existing legislation that allow insurers to charge extra premiums and exclude certain individuals from coverage altogether. The president also supported the department's proposal to strengthen privacy laws for those found to be predisposed to genetic disorders.

"We don't need inadvertent discrimination in the insurance market - particularly in health insurance markets," said Mr. Mike McCurry, the White House press secretary, announcing Mr. Clinton's support for the proposal.

The president urged Congress to support legislation currently under consideration that would prohibit healthcare plans from requesting or using genetic information to deny coverage or raise premiums. The administration's support for the bills means they are almost certain to become law within the next year.

The report noted that leaps in medical research in the last few years had identified a genetic link to a growing number of serious illnesses. Americans had benefited from the widespread availability of genetic testing for susceptibility to a range of diseases and conditions, including breast cancer and Huntington's dis-

ease. But it warned that people were increasingly inhibited from undergoing genetic screening because of fears they might be denied insurance or forced to pay higher premiums.

"While progress in genetics can help millions of Americans, we know that genetic testing can be used by insurance companies and others to discriminate and stigmatise people," the report said.

Last year, Congress passed legislation that prohibited insurance companies from refusing cover to members of group health insurance schemes on the basis of their susceptibility to genetic disease. But it left the way open for insurers to charge extra premiums for cover for such members, and it did not apply to millions of Americans in individual health insurance schemes.

The bill now supported by Mr. Clinton would forbid insurers in the individual market to deny cover, ensure that premiums charged to all the insured do not reflect genetic risk factors, and prevent insurers from sharing confidential genetic information with others, such as life assurance companies.

Insurance companies expressed concern at the president's support for the new restrictions. "The proposed legislation will drive up healthcare insurance premiums in the individual market by forcing healthier people to subsidise the less healthy," said Mr. Richard Coors, a spokesman for the Health Insurance Association of America. But the overall additional effect would be small, he added, as insurers already faced similar restrictions at state level.

Peru TV report on phone tapping prompts protests

By Sally Bowen in Lima

Massive anti-government protests were being prepared in Lima yesterday against what are being seen as further constitutional violations by the administration of President Alberto Fujimori.

The protests were sparked by two related incidents on Sunday. First, an investigative television programme revealed proof of systematic telephone tapping by the Peruvian authorities. Then within hours, the official government gazette - in a special edition - announced that Mr. Baruch Ivcher, majority shareholder in the television channel which had made the revelations, was being stripped of the Peruvian nationality he acquired in 1984. It alleged technical irregularities in the naturalisation process.

"This affects the essence of Peru's juridical security," said Mr. Jorge Santistevan, Peru's "defender of the people" (a type of ombudsman). "It makes it difficult to talk of the rule of law in this country today." Both the withdrawal of Mr. Ivcher's nationality and the telephone tapping were blatant violations of the Peruvian constitution, he said.

Mr. Javier Pérez de Cuéllar, the former United Nations secretary-general who ran unsuccessfully against Mr. Fujimori in the 1995 elections, said he was "indignant at the shameful attack" on Mr. Ivcher, and at

the telephone tapping scandal. "Peru is living a permanent coup d'état," he said. "Until late last year, the channel - whose viewers are primarily Peru's working classes - had been strongly supportive of the administration, especially of its counter-terrorist strategies. More recently, however, it has rejected government attempts to feed it information and has screened a series of highly damaging reports: it broke the news of intelligence service tortures and killings earlier this year and leaked the tax returns which confirmed the huge amounts earned by Mr. Vladimiro Montesinos, Mr. Fujimori's much-questioned but highly influential senior security adviser."

It is assumed that revoking Mr. Ivcher's nationality is a prelude to seizing his majority stake in the channel, since foreigners are not permitted to control television channels in Peru. Apparently irrefutable evidence of widespread telephone tapping, meanwhile, simply confirms Peruvians' long-standing suspicions. Reaction in the US to Sunday's events is likely to be strong. The heads of the Senate and House foreign relations commissions, Mr. Jesse Helms and Mr. Ben Gilman, have already expressed concern about the apparent persecution of the Israeli-born Mr. Ivcher. Mr. Dennis Jett, the US ambassador to Peru, has warned that Washington is monitoring events closely.

Caracas curbs banks

Venezuelan financial institutions were from yesterday required to lodge more of their reserves with the central bank as part of the bank's efforts to soak up excess monetary liquidity, Raymond Collett writes from Caracas.

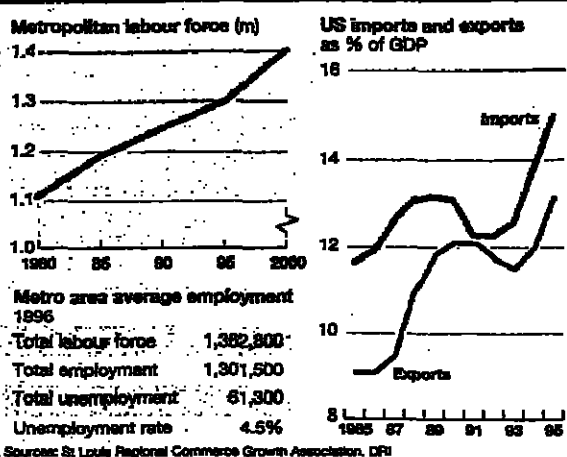
The requirement for all institutions to lodge 15 per cent of reserves, up from 12 per cent, will increase the cost of lending by forcing banks to set aside more of their deposits. It comes as strong fiscal spending is increasing inflationary pressure and keeping interest rates negative in real terms. Government spending has risen recently as a result of wage increases agreed earlier this year and one-off payments made as part of a recent reform of the severance pay system. Commercial interest rates have inched up in recent weeks after aggressive open-market intervention by the central bank as well as a gradual recovery in credit demand. Yet interest rates still do not exceed the 12-month inflation forecast of 25 per cent.

The central bank is to begin using long-awaited treasury bonds in coming weeks as part of its open-market interventions. The bills form part of a government scheme to cancel a \$3.7bn debt with the central bank.

Global pressures felt in US heartland

Even landlocked St Louis is responding to changes in world trade, reports Gerard Baker

St Louis: fully paid-up member of the world



landlocked St Louis has felt the impact of globalisation. But, where it was once synonymous with smokestack factories, Monsanto is now a "life sciences company". Most of its business is focused on research and development; its manufacturing is slim and efficient; some see it as the Microsoft of the chemicals industry. This change has been achieved at a cost. In the past five years, Monsanto has been restructured, cut the payroll by thousands, reduced costs, sold off many businesses and invested



heavily in the remainder. According to Mr. Nick Filippello, the company's chief economist, the driving force behind much of the changes for his company and the US as a whole has been the pressure of globalisation. "More open international markets have really put US companies' feet to the fire," he says. "If you can't count any more on being protected from foreign competition you have no choice but to sharpen your competitiveness."

Increased competition has been on the company's ability to raise prices. In the past, higher costs could be passed on to customers. Not any more. With hungry competitors pressing for market share, price stability is now a fact of life.

Globalisation also helps explain why, despite the success of US companies, many workers feel they have not benefited. Restructuring has cost millions of jobs in the US and global competition has restrained wage growth.

According to the US Labor Department, total labour compensation costs have risen far less in the US than elsewhere as trade has grown. Between 1985 and 1996, after stripping out exchange rate changes, total pay rose by just 36 per cent in the US, compared with 51 per cent in Japan and 69 per cent in Germany.

Some economists believe the effects of globalisation on the economy have been overstated. After all, they point out, trade still accounts for less than a third of total economic activity, a much smaller proportion than in most European countries, for example.

But globalisation goes beyond trade. Direct investment, both into the US by foreigners and outside the US by Americans, has grown even faster than the growth of trade. The total stock of foreign direct investment in the US tripled between 1985 and 1996. US investment abroad doubled over the same period.

"Globalisation is not simply a manufacturing phenomenon," says Mr. Murray Weidenbaum, professor of economics at Washington St. Louis University, and chairman of President Ronald Reagan's first council of economic advisers.

"Freer capital markets mean services can move overseas too."

But why has the US adapted better than other countries to the challenge? The answer, many economists believe, is the greater flexibility US companies are able to deploy, unfettered by rigid labour laws.

"Globalised markets have improved the bargaining power of US managers vis-à-vis their employees and their suppliers," says Prof. Weidenbaum. "That's created an environment in which traditional American entrepreneurship has thrived."

A progress report to global financial institutions

It's just a beginning.



Kenneth L. Burenga
President of Dow Jones
burenga@coi.dowjones.com

Four months ago, I told you that the people of Dow Jones Markets were starting to plan the future of financial services with a "clean sheet of paper and no limits."

Well, progress is more than promising. So I'd like to give you an update to show just what we've put on that "sheet of paper." Our new cross-functional development teams have moved incredibly fast in a few short months, rolling up their sleeves to start turning vision into reality. We're right on schedule.

We began by meeting with many of you in brainstorming sessions to explore how your markets are changing... and how those changes will affect your operations into the next century. We're developing a deeper understanding of how you manage capital, manage risk and manage information. How you deal with technology, regulation and competition. And the threat of disintermediation.

Not just today... but in that rapidly approaching future where Europe has made decisions on monetary union, Hong Kong has adapted to Chinese rule, and Glass-Steagall is history. Where the Internet is faster and more secure. Where intelligent software agents find the data... and visualization programs give it meaning.

This focus on understanding your business is feeding our major new development programs. The screens on this page begin to suggest some of the early capabilities we've developed. Major customers will be working with us in coming weeks to refine these capabilities into comprehensive solutions.

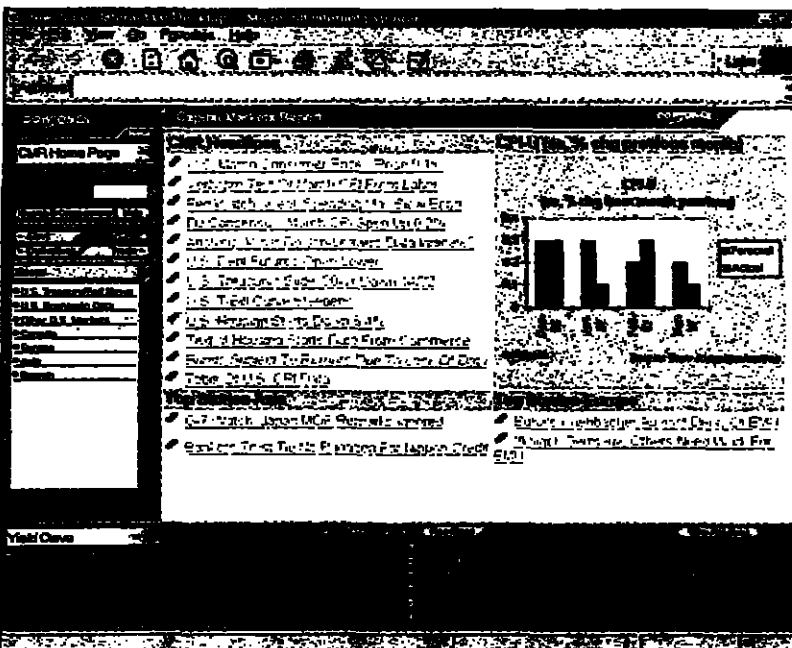
We (and our competitors) are still a long way from the ultimate goal of delivering fully open, integrated solutions so that - as I said in my first report - "you can integrate every process, link to every business party, see all the information." But less than four months after I told you our long-term vision, we've made a strong start.

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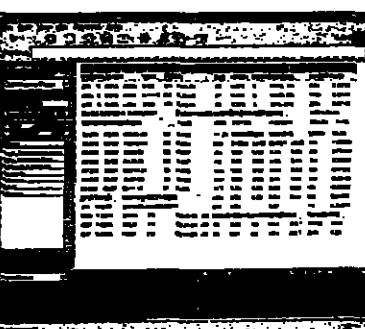
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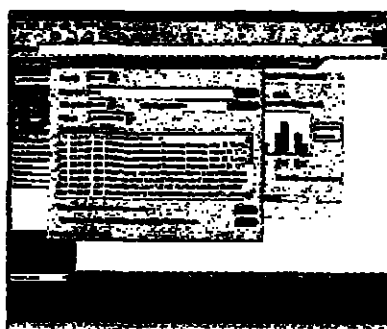
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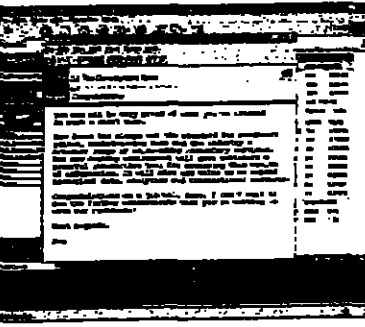
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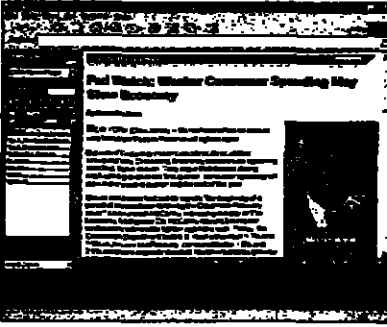
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Kenneth Burenga

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Peugeot leads scooter market

Japanese two-wheelers lose ground to Europeans

By John Griffiths

Japan's manufacturers of small motor-scooters, which less than a decade ago supplied almost 90 per cent of machines sold in the UK, are retreating before a flood of stylish and innovative European-designed and built two-wheelers.

Honda, Yamaha, Suzuki and Kawasaki saw their combined share of the UK market plummet to 34.35 per cent in the first half of this year, according to industry statistics.

Honda, which had a market-leading 33 per cent in the same period last year, saw its own share sink to 15 per cent, marginally behind the fast-rising Piaggio of Italy.

The French Peugeot group is now the clear market leader. Its increasingly wide range of machines styled to resemble sporting motor scooters has lifted its share to 34 per cent from barely 11 per cent a year ago.

Acknowledging that the figures were "broadly accurate", Mr Kevin Kelly, director of the Motorcycle Retailers Association, said: "It does seem Peugeot and Piaggio are showing the Japanese a thing or two."

Like some of Japan's leading carmakers, which have been struggling to maintain their market share in Europe, Japanese makers of two-wheel motor vehicles have faced increasing criticism that their once-famous design and styling flair has been losing momentum.

Japanese manufacturers still dominate the market

for fully fledged motorcycles, however. Their UK market share of 76 per cent is virtually unchanged in this year's first half.

Even so, they have been unable to prevent further success by the resurgent Triumph, based in the English Midlands, whose 2,669 sales of up-market sports motorcycles in the year's first half represented a 57 per cent jump from a year earlier.

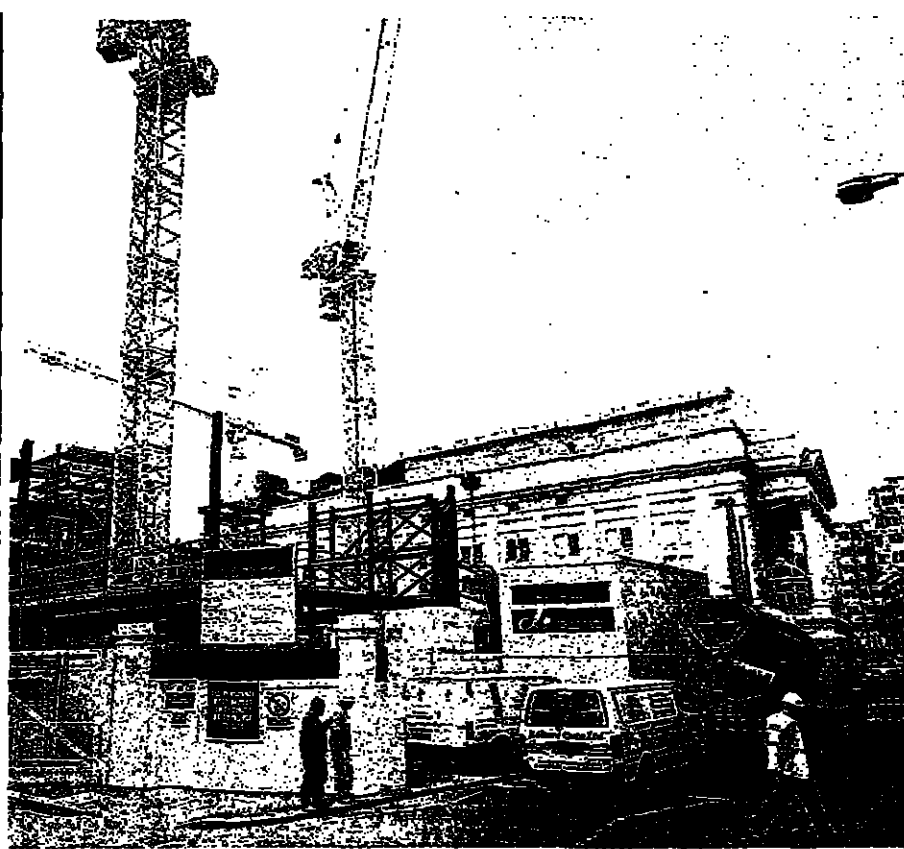
However, Triumph's share of the UK market rose by less than one point to 6.8 per cent from 5.7 per cent. This reflects the sharp rise in motorcycle sales overall this year: units sold increased by 36.3 per cent to 40,172.

"The sales figures for the first six months of the year clearly demonstrate that even in one of the wettest Junes for years, the motorcycle is making a comeback, with the public acknowledging the lower costs and shorter journey times," Mr Kelly said.

The catastrophic decline in recent years of the powered two-wheeler market, which fell from a peak of 315,000 in 1979 to about 40,000 early this decade, "is clearly a thing of the past", he added.

The increase in the much smaller motor-scooter market has also been steep. Sales rose by 23.6 per cent in this year's first half to 4,376 from 3,541 in the same period a year ago.

Immediately following the launch of several European designs in early summer, however, sales shot up by 77 per cent in June, to 1,119 for that month alone.



Long interval at the opera: rebuilding has started, with 95 per cent of contracts signed

Royal Opera House bows out until 1999

By Antony Thornicroft

The Royal Opera House, at Covent Garden in central London, temporarily closed its doors last night, after a gala attended by the Prince of Wales and enlivened by performances from stars including Plácido Domingo and Darczy Bussell.

When it re-opens in December 1999 with a new production of Verdi's *Falstaff*, the Victorian auditorium will be little changed. But the backstage operations will have been completely transformed.

Covent Garden has embarked on the controversial £214m (\$361.6m) redevelopment mainly to modernise its working practices. Some backstage machinery pre-dates the first world war and operating it requires a large crew.

There will also be new

changing and rehearsal rooms and a 450-seat studio theatre in which more experimental work can be staged. The adjacent Floral Hall will be transformed into a foyer space, with bar and restaurant areas.

The scheme has aroused controversy largely because of its use of funds from the National Lottery: the £78m given towards the refurbishment by the arts lottery fund is its biggest grant to date.

Covent Garden has committed itself to raising the rest of the money and an appeal has already brought in almost £70m, mainly from rich individuals, towards its £100m target. Many of those present last night were contributors.

The rest of the £214m will come from the selling or leasing space at the rear of the development.

Rebuilding has already started, with 95 per cent of the contracts on the work signed.

But Covent Garden could face industrial action from builders. The GMB union is threatening strikes over a pay dispute and has earmarked the Royal Opera House as a high profile project, likely to be affected.

Covent Garden narrowly avoided its own industrial dispute as it laid off 300 staff before the closure. It has also attracted public criticism from Mr Chris Smith, the heritage minister, who said that the lottery grant was dependent on the Royal Opera House making access to its performances easier for the less affluent where it re-opens.

During the closure Covent Garden will perform seasons in various London theatres and will also tour.

Railway regulator builds up a head of steam

With the completion of privatisation John Swift has adopted a higher profile, says Charles Batchelor

Mr John Swift, the rail regulator, is getting tough with the UK's privatised rail groups. Last week he added the train operators' hopelessly inefficient telephone answering bureaux to his target list, threatening fines running into millions of pounds unless they improved performance.

This followed earlier attacks on the failure of Railtrack - which owns and operates the stations, track and signalling of the former state network - to meet its investment targets, and a warning to train operators that they would be expected to go beyond the letter of their contracts in improving services.

But after three years of relative obscurity, Mr Swift's decision to adopt a higher profile has prompted complaints from some of the privatised rail companies that this is an attempt at "regulation by headline".

Others have suggested that he is attempting to curry favour with

the new Labour administration to save his job.

Mr Swift, a former competition lawyer with a shrewd appreciation of the realities of power, admits that the move to a higher profile has been deliberate. But he denies it has anything to do with a desire to secure his position.

"Until December, we operated rather like a charity, doing good works in private," he explains. But the completion of the privatisation of the passenger railway - and the ending of the period during which he was obliged to accept the "guidance" of the secretary of state for transport - persuaded him that a more public presence was necessary.

"When privatisation was still going through, high profile criticisms by me would have been seen as an attack on the process," he says. "This would have conflicted with the regulator's duty to promote the railway as well as being politically unwise."

The new approach was launched in January - with a warning to the train companies to improve ticket information - in a deliberate attempt to establish the regulator's political impartiality. It would not have been sensible to appear suddenly to convert to a more active role after an election which brought a new government to power.

Mr Swift may reject the charge that he is regulating by headline but conducting visible campaigns to improve rail services does strengthen his hand against some formidable adversaries.

Railtrack, a concern of many in the industry because of its monopoly, at first appeared ready to confront the regulator over his demands for tougher controls on its investments.

But 10 days after warning that tighter regulation would "lead to more bureaucracy, second guessing of decisions and a loss of flexibility", Sir Robert Horton, Railtrack



Shrewd: former lawyer John Swift

chairman, backed down. He accepted "that Railtrack should be publicly accountable for its network management plans for the delivery of output measures to be agreed".

Mr Swift, now 56, has another 18 months of his five-year tenure to serve. As one of the key people involved in devising the framework

of the privatised railway - regulators of other industries were appointed after the privatisation process - he would be well placed to serve a second term, though a return to lucrative private practice would also be an option.

But the whole issue of rail regulation is under review. The government has been highly critical of the effectiveness of the system. It has also promised to establish a strategic rail authority which might combine the twin roles of rail regulator and franchising director.

There is little dispute that rail regulation should be simplified. Having both the regulator and a franchising director responsible for different aspects of supervision does not make for clarity.

Whatever format Labour opts for, however, there is clearly a need for a determined defender of passengers' interests. Mr Swift's current campaign seems set to cast him in that role.

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Virgin chief promises motor sports rival in event of pull-out over tobacco

Branson in Formula One pledge

By Nicholas Timmins
and John Griffiths

Mr Richard Branson, chairman of the Virgin group, yesterday delivered "a pledge" to set up a rival to the Formula One motor racing business if it carries out its threat to pull out of Silverstone, venue for the British Grand Prix, when the government bans tobacco advertising and sponsorship.



Richard Branson

Mr Branson, who gave up smoking two years ago after 10 years of trying, said Formula One and the tobacco industry had no right to "blackmail" the government.

The threat to leave, he said, was "a bluff". But if it happened "we would be very happy to set up a rival Formula One both here and around the world if necessary".

An alternative would be to bring the North American IndyCar series to the UK if it could be persuaded to wear itself off tobacco cash.

"I don't believe it will be necessary," he said. Other sponsors would step in because once tobacco went, the cost of Formula One sponsorship would fall.

Cigarette manufacturers were so desperate for the exposure to the young which Formula One provided that they "overpaid" for sponsor-

ship by 10-15 per cent, forcing up its price.

Asked how much a rival operation would cost, Mr Branson said: "It would be much less than setting up an airline, but obviously it wouldn't be cheap." He added, however, that the drivers could be paid £250,000 (\$422,500) a year instead of £5m-£10m.

Motor sport was dismissive of Mr Branson's pledge. Mr Max Mosley, the president of its world governing body, the Federation Internationale de l'Automobile, said motor racing was "an area about which Mr Branson knows nothing. His record in areas where he knows nothing - as with

cleaning up litter for Mrs Thatcher - is not very good."

If he financed some new racing in Europe, Mr Mosley said, "we shall be glad to consider it. But a rival to Formula One - I don't think so."

Formula One has become a global sport and business matched in audience size only by World Cup soccer and the Olympic games. But it takes place 17 times a year and sponsors are prepared to pay the millions it demands because of the global reach. In addition, no driver could risk taking part in a rival series lacking FIA's sanction without losing his licence - the ticket to his livelihood.

Two meat plants in probe are shut down

By George Parker
and Alison Maitland

Two meat plants were yesterday shut down by Mr Jack Cunningham, agriculture minister, on suspicion that they may have been involved in an illegal operation to export British beef.

Mr Cunningham said he had ordered the suspension of production at the two plants with immediate effect, in the interests of public health.

It is understood the two sites concerned are the Helne cutting plant at Hoddeston, north of London, and the Saez cold store in Stoke-on-Trent, in the English Midlands.

The agriculture ministry refused to say whether the two plants were suspected of acting in tandem, or whether any other meat producers were also under investigation.

Mr Cunningham will travel to Strasbourg today to answer questions from MEPs about the illegal export of 1,900 tonnes of British beef, in defiance of the worldwide ban introduced in March 1996.

He said yesterday's decision to take action against the two meat plants followed work by ministry officials and the European Commission anti-fraud unit.

"Evidence is coming to light that some UK-based companies may have been exporting UK beef," he said.

"There is evidence too that the companies in question have been failing to comply with the basic requirements on record-keeping, whose purpose is to ensure that the origins of meat can be traced, and falling down on hygiene standards."

"I am determined to crack down hard on anyone who runs risks with public safety and I am absolutely determined the inquiries into this complex affair should be pursued to the end."

Neither company was available for comment last night.

UK NEWS DIGEST

Airline staff seek fresh talks

A threat of significant escalation to the disruption facing British Airways passengers was averted yesterday when the leaders of 9,000 ground staff decided to seek fresh talks rather than go on strike. The main dispute facing BA, involving cabin crew, is still to be resolved, with flights continuing to be hit yesterday following last week's 72-hour strike over pay.

But the decision of the TGWU transport union to seek further negotiations over the sale of the airline's catering operation came as a relief to BA ahead of its annual meeting with shareholders today. Mr Robert Ayling, BA's chief executive, said: "We have said ever since we announced the sale of our catering business that we wanted talks with employees and their unions to ensure we protected their interests in the transfer to the new business. We will happily work with them to this end."

Andrew Bolger

PENSIONS MIS-SELLING

DBS faces record \$845,000 fine

Shares in DBS Management, the business support services group, fell nearly 6 per cent yesterday after it emerged that it was liable for a record £500,000 (\$845,000) fine from the Personal Investment Authority for failures linked to the pensions mis-selling review. The fine would be the biggest imposed by the PIA on any company, and the biggest imposed by a regulator for mis-selling-related offences. DBS, based in the north of England, represents 1,700 firms of independent financial advisers.

Mr David Stewart, finance director, said he understood DBS was being fined for being too slow with its mis-selling review and for deficient control procedures. He said the company would make representations to the PIA's disciplinary committee and could later appeal against the size of the fine.

Christopher Brown-Humes

AIRPORTS

Rival centres urged to co-operate

The government yesterday rejected proposals for an expansion of Liverpool airport in north-west England but urged its new owners, Peel Holdings, the property group, to co-operate with rival Manchester airport, 60km away, over future development. Mr John Prescott, deputy prime minister, also gave the green light for a 50-hectare business park on part of the Liverpool airport site and said he would not intervene in plans for a new air freight depot at Manchester airport. Mr Prescott, also transport and regional policy secretary, said these decisions confirmed the government's commitment to a strategic approach to regional economic development.

Charles Batchelor

NORTHERN IRELAND

Backlash over republican contacts

The government faced a backlash from pro-British unionists tonight after it admitted maintaining secret contacts with Sinn Féin, the political wing of the Irish Republican Army. Unionists said Mr Tony Blair, the prime minister, had a serious credibility problem after revelations that officials kept up contacts despite his pledges to end exploratory talks after the murder of two policemen last month. Ms Mo Mowlam, the chief minister for Northern Ireland, insisted that no negotiating had taken place.

Agencies' business may be limited by Lloyd's

By Christopher Adams,
Insurance Correspondent

Lloyd's of London could impose limits on the amount of business controlled by the agencies managing its insurance syndicates in a bid to head off the growing concentration of market capacity in fewer hands.

Lloyd's said yesterday it was concerned that rapid consolidation among the managing agencies threatened both to concentrate big risks among too few insurance syndicates and reduce customer choice.

Mr Andrew Duguid, head of policy and planning, suggested Lloyd's could take 15 per cent of its overall capacity as a "starting point" in considering the maximum amount of business any one group should be allowed to control. A working party is being set up to decide whether restrictions should be imposed.

Capacity is the total premium income which Lloyd's can write annually. Ten managing agency groups control half of this year's £10.3bn (\$17.4bn) capacity. The largest of these,

comprising two agencies owned by investment trust Limit, have 7.5 per cent.

The review comes as Lloyd's carries out a far-reaching review of its capital base. The market is struggling to increase its share of world-wide business as competition intensifies. Managing agencies have merged both with each other and with the new-style corporate investors that are replacing Names - the individuals whose personal wealth has traditionally supported the market - and which will probably provide more than half of the capacity next year compared with 44 per cent now.

The consolidation has created insurance companies with a larger slice of capacity and posed a problem for Lloyd's, since some syndicates may be more exposed to future losses and the range of insurance on offer may become limited.

In addition, Lloyd's is concerned that corporate investors may be more fickle than Names. If they acquire large blocks of capacity and then withdraw when underwriting profits fall, the stability

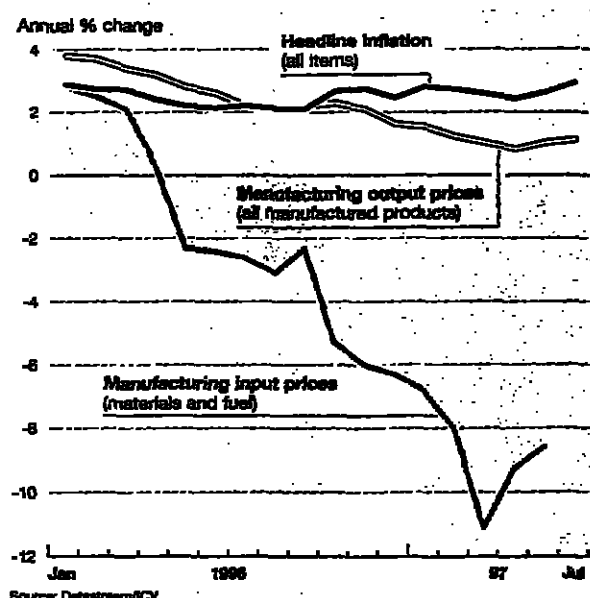
of Lloyd's capital base could be undermined.

Mr Duguid warned it might be necessary to prevent underwriters from insuring too large a portion of any one risk. Lloyd's syndicates have traditionally underwritten large chunks of business such as oil rigs and jet airliners collectively. However, some are beginning to use their increased capacity to underwrite a larger slice of such risks.

But changing the way Lloyd's operates is complicated by its unique structure. The society's ruling council does not have as much influence over its capital base as the board of a commercial company and would have to tread carefully during its review so as not to breach laws governing competition.

Some underwriters are doubtful that capacity restrictions are necessary. "One per cent of Lloyd's can destroy the market," said Mr Robert Hiscox, chairman of Hiscox plc, a managing agency. "But someone can have 20 per cent and it's as safe as houses."

Dilemma of a divided economy



Factory output prices stable

There is virtually no inflation in the UK's manufacturing sector, according to government figures published yesterday, but economists warned that the good news on factory gate prices would not stop interest rates from rising further. Wolfgang Münchau writes. Factory output prices - excluding food, drink, petroleum and gas - rose by 0.6 per cent in the year to June. Input prices for materials and fuel purchased by manufacturers fell by 1.4 per cent during June, and were down by 8.6 per cent from a year earlier. Low output price inflation and negative input price inflation were caused by the rise in sterling. This has lowered the price of imports and hit profit margins of exporters.

SIEMENS NIXDORF



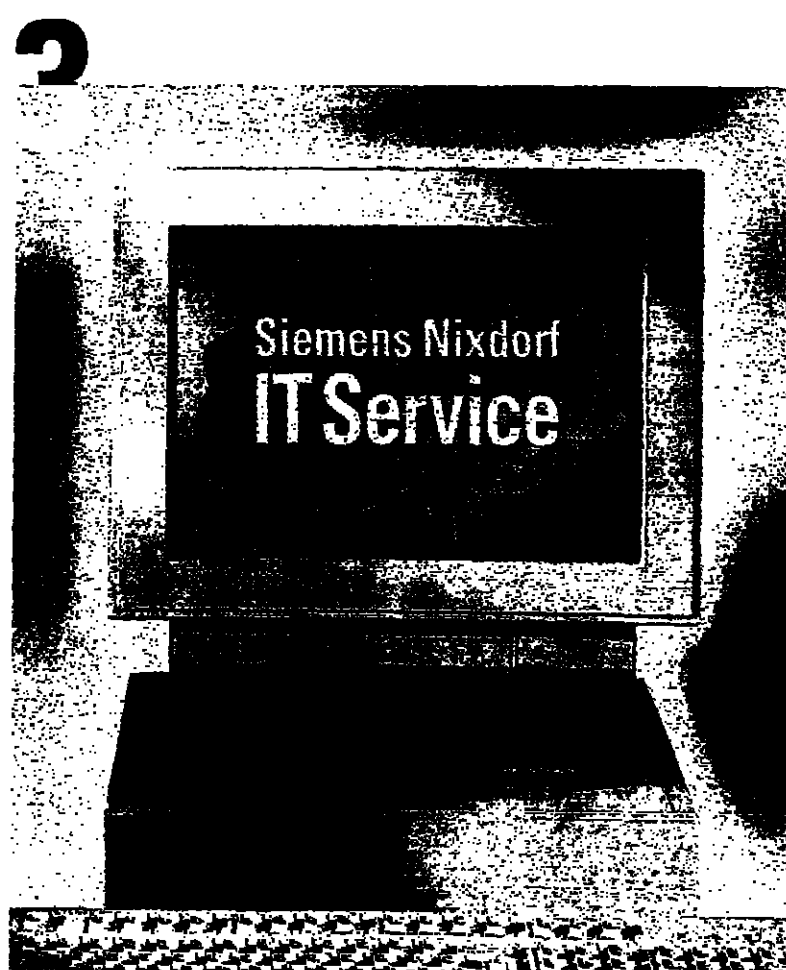
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TECHNOLOGY

Falling costs will allow fingerprint verification to be widely used, reports Geoff Nairn

The key to your identity

Information at your fingertips is not just a marketing phrase for the biometrics industry, which sees fingerprint verification as a key technology for protecting information in the digital age.

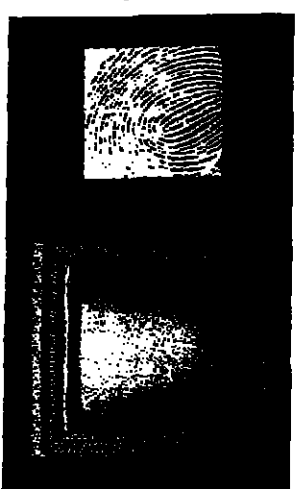
Biometrics is the science of using unique human characteristics, such as voice, fingerprint or retina patterns, to verify a person's identity. As any James Bond fan knows, the technology has been used to control access to buildings. But access control is a niche market and the biometrics industry sees bigger opportunities in internet commerce, banking transactions and data security.

"Access control is not a big enough market to sustain our company," says Dennis Hollingshead, president and chief executive of Mytec Technologies, a Canadian security company that plans to launch a biometric product later this year. The system uses a small optical scanner to digitise a person's fingerprint and generate a unique digital "key" that can scramble personal data stored on smartcards. Pins to perform financial transactions and computer passwords. The data can be unscrambled only by the person placing his or her finger on the scanner.

Mytec claims its system is

suited to electronic commerce as it avoids the practical problems involved in other encryption schemes. "The key is the weakest point in all encryption schemes as it has to be stored somewhere," says Hollingshead. "But with biometric encryption the key is your finger."

Fingerprint verification is not the only biometric technology but it is the most



SGS-Thomson's fingerprint sensing chip

developed and is well suited to mass-market applications because of the tumbling cost of fingerprint readers. "Fingerprint technology is today both accurate and cheap,"

says Ricardo Arroyo, biometrics project manager at Unisa's Spanish subsidiary. The company is supplying the southern Spanish region of Andalusia with a fingerprint verification system to cut social security fraud. More than 7m smartcards with 633 fingerprint readers installed in benefit offices when the project finishes later this year.

The US General Accounting Office estimates benefit fraud cost US taxpayers more than \$10bn (£8.25bn) a year and several countries are looking to follow Andalusia in using fingerprint readers and smartcards to cut down paperwork and fraud. Others are considering fingerprint verification to protect medical records, ID cards and driving licences.

Early fingerprint verification systems cost more than \$1,000 and required accurate optics which could fail when faced with poor quality fingerprints. Advances in the software used to digitise fingerprints allow today's makers to build smaller, more reliable devices with less sophisticated optics and prices have thus dropped to less than \$300.

"At that price the market starts to open up," says Mike Lynch, managing director of Cambridge Neurodynamics. The company, set up by

Travellers arriving at New York's John F Kennedy airport know at first hand the benefits of biometrics in bypassing the notoriously long queues at immigration control, writes Geoff Nairn.

The Inspass system allows frequent, low-risk visitors to the US to speed through by simply placing their palm on a scanner, which compares the geometry of their hand with that stored on a card. If the biometrics match, the visitor can enter.

Cambridge University researchers have developed a \$300 optical fingerprint reader and image analysis software that uses neural network technology. A US company, KeyTronic, sells a PC keyboard with built-in fingerprint reader and software for less than \$300.

Prices could soon drop further thanks to new readers based on semiconductor technology. Researchers at European chipmaker SGS-Thomson have developed a chip with tiny capacitive sensors to capture the fingerprint by measuring the differences in electrical charge between the skin's ridges and valleys.

Lucent Technologies, formerly the technology divi-

sion of AT&T, recently spun off a company, Veridicom, to market a similar technology. Veridicom hopes to launch a system based on its postage stamp-sized capacitive sensor later this year at around \$300, although that could drop significantly if the chip goes into volume production, the company claims.

Veridicom believes its sensor's small size and low cost make it ideal for use in products such as portable computers, cellular phones and electronic tags to identify property. Many banks and card companies would like to build fingerprint scanners into ATMs and POS terminals - eliminating the need for users to remember pins or, worse, write them down.



Some people have been waiting a very long time: immigrants queuing to enter New York at the turn of the century

Photograph: Corbis America

The Immigration and Naturalisation Service claims the process can take just 11 seconds. Inspass is also operational at Newark and Toronto airports.

Like other immigration authorities, INS is evaluating many biometrics technologies including fingerprints, face and voice recognition. Canada uses fingerprints at Vancouver airport but the INS plans to continue with hand geometry for Inspass.

"Fingerprint validation is too

slow because of the time needed to position the finger correctly," says Thomas Andreotta, Inspass project manager.

Over 65,000 cards have been issued since 1993 and INS wants to extend Inspass to other airports and land borders. But there have been technical problems and poor management. "The slippage is unfortunately due to problems writing new mainframe software," says Andreotta.

Attempts to develop a universal

biometric border pass are also progressing slowly. The US and five other countries have tentatively agreed to standardise a card format that can be read in all their systems, but travellers will have to enroll separately in each country.

Also, INS plans an advanced optical-storage card containing digital photograph, fingerprint and hand geometry data, that will not be compatible with the existing standard.

fingerprint readers. Fingerprinting is inevitably associated with criminals and the biometrics industry must convince a sceptical public that fingerprint verification cannot be misused. The technology is quite different from that used in police fingerprint recognition systems.

For verification, there is no need to store an accurate image of a fingerprint - it occupies too much memory and takes too long to process. Instead, the reader typically just looks for features, called minutiae, that make each fingerprint unique. The pattern of these minutiae is then turned into a digital "template" and it is these templates that are stored and compared. The industry argues that it is impossible to generate a fingerprint from the template.

SKW
TROSTBERG

DIALOG

Net income up 25% to DM 150 million in 1996
SKW strengthens market positions worldwide
MBT leads 37% surge in first quarter Group sales

In 1996, SKW Group sales advanced slightly to DM 3.91 billion from DM 3.88 billion recorded the previous year. Without acquisitions and disinvestments, sales growth was 5%. With the consolidation of MBT, Group sales are expected to soar to DM 5.3 billion in 1997. SKW-MBT now ranks as the global leader in construction chemicals. SKW had already become one of the world's biggest suppliers of gelatin and food additives by purchasing SBI Systems Bio-Industries in 1995. After a period of large acquisitions, further internationalization, and a new Group structure, SKW aims to bolster its 1997 growth based mainly on its own strengths and resources in a phase of consolidation.

INCREASED DIVIDEND PAYOUT FOR 1996 PLANNED

Results from operating activities of the SKW Group rose to DM 286 million, a further increase from the already respectable DM 281 million of the previous year. Net income for the year increased by 25% to DM 150 million. The adjusted earnings per share (DVFASG) grew to DM 2.25 after DM 2.03 in 1995.

For 1996, we will propose to increase the dividend from DM 1 (20%) to DM 1.1 (22%) per DM 5 nominal share - the total dividend payout amounting to DM 69.3 million (1995: DM 63 million).

ALL DIVISIONS DISPLAY NEW STRENGTH

Following the restructuring of SBI, substantial cost savings in the Nature's Products Division are already discernible. The Chemicals Division is profiting from its prominent market position in specialty chemicals, from the buoyant special fertilizer market, and from its desulfurization products for Europe's recovering steel industry. A major competitive advantage of the Construction Chemicals Division is its worldwide sales organization, enhanced by MBT's strong presence, especially in emerging markets.

SKW
TROSTBERG

SALES AND EARNINGS JUMP IN FIRST QUARTER

In the first quarter of 1997, SKW Group sales reached DM 1.3 billion, a considerable gain of 37% (DM 958 million) over the year-earlier result. This growth was mainly due to the first-time consolidation of MBT's sales, without which the increase would have amounted to 4% or DM 35 million. Following the integration of MBT, assisted by a stronger US dollar and a recovery in the economic environment, the Group's results from operating activities were also significantly higher than the first quarter figure of the year before.

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Mark of a thief: fingerprints on stolen cheques can be found using an environmentally friendly solvent

Forensic investigation goes green

Non-ozone depleting alternative to the traditional recipe for developing fingerprints on stolen cheques has been developed by 3M, the conglomerate best known for Scotch tape.

The stolen cheque is normally covered in a special powder dissolved in a solvent, heated in an oven, left

to cool and then watched for fingerprints to emerge. The solvent has to be compatible with a broad range of materials, evaporate quickly and have low toxicity. Traditionally, CFC-113 has been the only solvent to fit the bill, but this contains chlorofluorocarbons which can damage the ozone layer.

The new solvent, 3M HFE-

7100, contains the more environmentally acceptable hydrofluoroethers rather than CFCs. It has performed well in tests at the Home Office's Police Scientific Development Branch, and regular use of the chemical for forensic investigation is expected to begin next year.

Andrew Baxter

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ARTS

Romance of the Côte d'Azur

Jackie Wullschlager visits an exhibition which examines the ebb and flow of the seaside

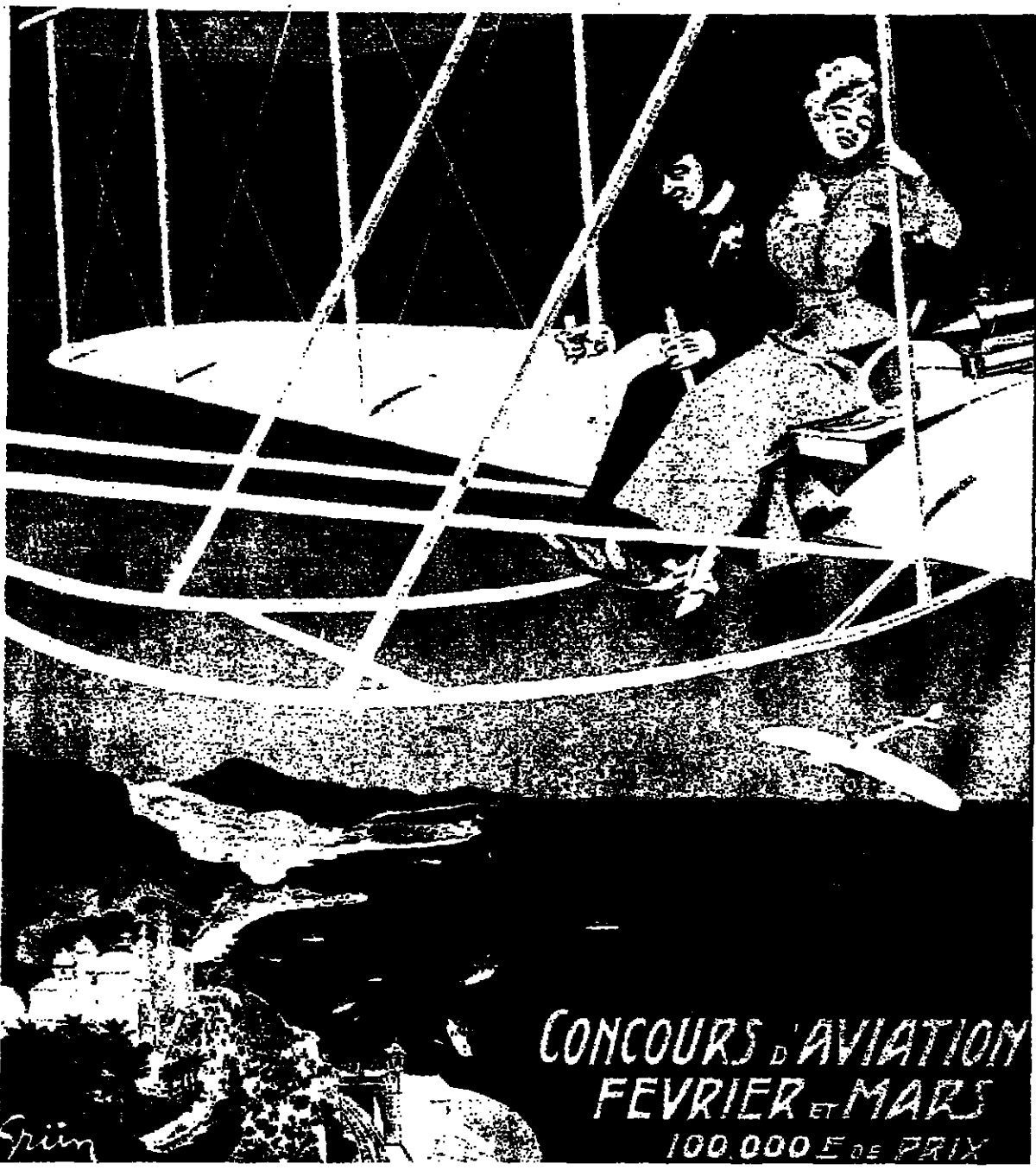
Do you like it here? Nicole and Dick Driver, on vacation on the Côte d'Azur, are asked in *Tender is the Night*. "They have to, they invented it," a friend replies.

"Vacances à la Mer", the new Paris summer exhibition, tells the story of the invention of the seaside, and is a gloriously French construct: an analysis of hedonism and the pursuit of the chic which brings the pleasures of the mind to bear on the pleasures of the body. For where else but within the colourful postmodern tubes of the Pompidou Centre would you find a room devoted to the social significance of the stripe, from blazer to deckchair? And where but the French Riviera would a grand hotel, the Carlton at Cannes, boast twin cupolas modelled on the breasts of a famous belle époque courtesan?

A recent survey of favourite places for sex found that French women's overwhelming first choice was the beach (the bedroom came second). But our idea of the sea as life-enhancing, healthy and fun is comparatively modern. In 1847, Flaubert wrote savagely of the *quantité* of "cripples, the one-armed, the blind, hunchbacks and people with rickets and sores" who populated Brittany, and in 1850 Monte Carlo was the poorest state in Europe.

When entrepreneurs set out to entice people away from taking the waters at thermal baths - traditional spa resorts like Bath, Baden-Baden, Evian-les-Bains - they had to diffuse not only social prejudice like Flaubert's but a cultural heritage which associated the sea with fear, of drowning, shipwreck, monsters and "the anguish of infinity".

All those Romantic tales of undines and sea sprites, Dvořák's *Rusalka*, Debussy's *Melisande*, Andersen's *Little Mermaid*, speak to age-old terrors of the sea. Yet by the 1880s two practical developments - speculative property building and the spread of railways - gave the seaside the allure of *délectation*. Exotic "steam rockets" took travellers to villas modelled on Chinese pagodas and Arab palaces. Hotels,



Seaside fantasies: 'Aircraft competitions attracted visitors and provided thrills' in Monte Carlo

casinos, piers, bathing huts were constructed and, from St Malo to Nice, colourful fronts were in place by the turn of the century.

This is delightfully recounted here in photographs, drawings and models, while popular art illustrates the changes in perception. In 1853, Honoré Daumier's *Le train de Plaisir*, one of his *croquis aquatiques* cartoons, satirises a pair of

Parisians in top hats, drenched and miserable, wading through a stormy sea. In 1890, the jaunty Toulouse-Lautrec-style posters of the Compagnies de Chemin de Fer were idealising straw-hatted men ogling women in knickerbockers beneath the pleasure domes of *La Reine des Plages*, St Malo.

Somerset Maugham called one glamorous French resort "a sunny place for shady

people", but, especially in the north, etiquette was strict and as late as 1929 the mayor of Deauville banned nude shoulders.

And so to the stripe, the beach fashion invented in the 19th century as a compromise between the health brigade, who insisted white be worn next to the skin, and the prudish, who were shocked by its transparency.

By alternating opaque and sea-through lines, sexy silhouettes were supposed to look less inviting.

The show suggests that "vacances à la mer" are a metaphor for the *faillites* of life. It ends with an absurdist image from our own times: a life-size, gruesome papier mache family taking their first dip in the shallows, and wincing as their feet dissolve.

A joy here is the photographs of Jacques-Henri Lar-

tigue, great chronicler of the French seaside. His photo of young men in striped blazers at La Baule in 1913 brilliantly fixes an assured, aristocratic class escaping reality on the eve of its decline. Flanking it, Coco at Hendaye, 1934, shows a young woman looking out at the Atlantic, sitting with her back to us in a striped, strappy bathing suit beside a billowing empty striped tent: Larigue's encapsulation of a 1930s beach as a place of menace, decadence and hollow ideals.

Twenty years on, Robert Doisneau's 1950s photographs of eager children fighting the waves are nostalgic recreations of a Europe recovering hope and confidence. Kodak cameras came in 1888 - Larigue had one from the age of six. The room devoted to a century of family snapshots proclaims that the camera conditions and creates the myth of the seaside holiday as well as records it.

But this room is really about the simple pleasures of continuity. The donkey rides at Boulogne-sur-Mer in 1880; the postcard to the Parisian grandparents in 1900 ("the girls have been *sages et faciles*"); "Catherine had her nap after lunch as usual"; the nanny and charges at the *plage fleurie* of the Normandy Hotel, Deauville, in 1930; "Polly", the mechanical swimming doll from the 1850s; here is history as an acceptance of the familiar and banal that make up so much of our lives.

The shifting tones of this exhibition, now tender and sentimental, now a deconstruction of symbols, now a brash parade of fashion, recalls something of the pleasure of watching the panorama of beach life from a deckchair on the sand, or the whimsical appeal of French seaside films.

The show suggests that "vacances à la mer" are a metaphor for the *faillites* of life. It ends with an absurdist image from our own times: a life-size, gruesome papier mache family taking their first dip in the shallows, and wincing as their feet dissolve.

At the Pompidou Centre, Paris, until September 27.

Ballet / Clement Crisp

A Swan Lake to believe in

I am no lover of jesters or clowns. At the first suggestion of one of these capering horrors, I point myself towards an exit and run. But there is one exception. Despite the desperate vivacities of the Jester in the Kirov *Swan Lake* - he manages to appropriate the bunch of flowers which Siegfried is to give his prospective bride at the ball, thereby casting an intriguing light upon their relationship - the production is so splendid that, without the least quiescence, I enjoy every moment.

This Petersburg staging is now the only acceptable one in the world as a view of the real, the true, the traditional *Swan Lake* that was first given at the Mariinsky Theatre a century ago. Its text is more corrupt than it should be - the Royal Ballet has a much better version, ruined by production and idiot dramatics - but Kirov style is so beautifully attuned to the score and the emotional resonance of the narrative that we can believe in *Swan Lake* as a lyric tragedy.

The Kirov staging is serene. Little happens save the choreography, which is danced with a sublime assurance and sense of rightness. The first act is a dream-prelude in which courtiers dance with untroubled elegance. The lake-side is a vision of whitened movement in which Odette's sorrows touch our hearts. (On Friday, when *Swan Lake* entered the Kirov repertory at the Coliseum, Yuliana Lopatkina was superb in movement as the Swan Queen, rather more muted in feeling.)

In the ball-room, the pas de deux of the national dances sets a tone of physical brilliance no other troupe can emulate: the Mazurka, danced by the four most beautiful couples in the world, is a marvel of aristocratic bravura. The last act is all sorrow and swan-feathers, and proves that even this balletic cliché is still potent when given by dancers whose traditions and style command belief in whatever they perform. The design by Igor Ivanov, costumes by Galina Solov'yova, are the ones we have been used to. (The vile innovations formerly proposed by Oleg Vinogradov in staging and decor have, I trust, been left out for the dustbin.)

It is, as you may now have guessed, a wonderfully satisfying *Swan Lake*. (It was the only good news in a week that brought hints of new stagings on the horizon.) Lopatkina, greatly admired in Russia, is an extraordinary artist. She was, I would venture, slightly nervous in the first lake scene. Tall, still young, she offered an Odette of beautiful line, fluent execution, creating exquisite shapes in the air. There was, though, some lack of feeling: her tragedy was one of resignation rather than despair or even nascent hope when Siegfried comes to her. (The presence in the audience of Inna Zubkovskaya and Natalya Makarova, both sublime Kirov Odettes, brought vivid

memories of emotion nobly shown in this first scene.)

But in the ball-room, seizing upon the music's energies, Lopatkina was tremendously good. There was a spiritual and physical power to her dancing which spoke of great talent. And for the last lake-side scene, this same brightness of feeling, a heart-rending sense of despair, brought the role to a triumphant conclusion. Lopatkina is, clearly, an exceptional artist from whom we can expect great things, her style exquisite.

Her Siegfried was Igor Zelensky. We marvel at Zelensky's technical power - the big, almost lazy ease with which steps are set forth; but no less fine is his ability to establish emotion. His art is one of simplicity, as with his dancing where we wonder why so few other princes set out the steps with such magisterial clarity. His Siegfried is a dreamer, brooding. It suffices for him to establish this mood, and the ensuing drama becomes clear, credible. It is a compelling reading.

For the rest, the Kirov corps de ballet are a single glorious ballerina. The mazurka, with its superlative octet of Polish aristos, is a miracle of style.

As the Kirov Ballet season continues, I record with great sadness the death, in New York on Sunday, of Alexandra Danilova, a great ballerina who was a product of the Petersburg school and ballet company early this century.

Alexandra Dionysovna Danilova was born in Peterhof, near St Petersburg, in 1902. While still very young she was orphaned, and became a pupil of Imperial Ballet school. By the time she was 18 she had graduated into the ballet troupe of what had become the State Theatre in Petrograd. In 1924, George Balanchine invited her to join a small concert group he was taking on a tour of Germany. In that same year he and Danilova and their companions were to join Diaghilev's Ballet Russe. Balanchine became the company choreographer; Danilova, grandly talented, became a principal of the troupe.

Her career, thereafter, was to make her one of the icons of the Ballet Russe, the epitome of the glamorous, gifted Russian ballerina. In the roles that Leonid Massine gave her - in *Boutique Fantasque*, *Beau Danube Galois*, *Parade* - she was like the finest champagne. Her career was largely spent in America, where she led the Ballets Russes de Monte Carlo for two decades. On her retirement, she was invited by Balanchine to work at his School of American Ballet, where she passed on her profound knowledge with exemplary skill and great style. She was married twice: to Giovanni Massera, and then to Kasimir Koclik. Like every other ballerina, I saw her and at once fell in love with her, with her charm, her joyous spirit, her classical grace in dance, and her grace in life.

Cheltenham Festival / Richard Fairman

Out with the stuffiness

So much publicity is given to the problems of our leading opera companies that it is easy to overlook the fact that life can be hard elsewhere. Turn to the arts outside London and there is even less chance of attracting public attention.

The Cheltenham Festival is in its 53rd year, which makes it older by a whisker than either of its illustrious British counterparts at Edinburgh and Aldeburgh. A commitment to new music by its founding fathers has never been forgotten and under its present artistic director - Michael Berkeley, son of the composer Lennox Berkeley and a leading young composer himself - the stuffy atmosphere of a few years back has been gently blown away.

It cannot be easy work. The Arts Council grant for

the 1997 festival was barely enough to pay for a handful of prima donna's top Cs at a certain establishment in the capital and sponsorship has been getting difficult as companies look to shift their spending to events of obvious public appeal.

So, it is no news at all to report that the festival has gone ahead as usual. The financial targets have been raised, and audience figures are expected to equal last year's average of 70 per cent plus. For a festival which has a premiere, or something near it, in almost every programme, that is worth a modest headline of its own.

Friday's evening concert offered a big premiere by Vic Hovland - rather bigger, in fact, that the festival had anticipated. A lot of extra instruments were needed and the BBC Symphony Orchestra, with its conductor Markus Stenz, was forced to forsake the platform for a larger space on the floor of the hall. The Town Hall at Cheltenham is not a good venue for a symphony orchestra at the best of times and this turned Brahms's Second Symphony into a congested, booming noise for anybody seated at ground level.

For the second half, I took refuge in the balcony, where

Susan Bickley's extraordinarily inward singing of Mahler's *Lieder eines fahrenden Gesellen* came across with surprising immediacy. The Hovland piece itself was also best heard from a distance. *A-wien-A*, commissioned by the BBC, had enough of interest in it to hold the attention for the 30 minutes it lasted, but would be unlikely to survive closer scrutiny. Aside from Hovland's fondness for muted trumpets, vibraphones and gongs, there was little to stop the score fading into an unspecified, late 20th century musical language.

By contrast, the Pittville Pump Room is an ideal place

for morning recitals. For his taken piece of relatively new music, the Polish pianist Piotr Anderszewski offered three of Lennox Berkeley's Six Preludes, Op.23 (no need to be bashful about this composer's underrated music, just because he was the father of the festival's artistic director). Bach's English Suite No.6 went part of the way towards showing what this pianist can do and an engrossing performance of Beethoven's *Diabelli Variations*, touched in every variation by his imaginative feel for colour and atmosphere, completed the picture admirably.

For Saturday evening, the festival dug deep into its pocket for a Bach programme with the Orchestra and Choir of the Age of Enlightenment, only to be rewarded with a miserable attendance. With Paul Nicholson as conductor, they missed period-instrument playing and singing well up to OAE's usual high standards.

Ruth Holton and Peter Harvey were the pleasing soprano and bass soloists in the two cantatas, BWV 47 and 32, and there was also the first performance of Betty Roe's short choral piece, *His Winding Sheet*, part English traditional, part more adventurous - just five minutes, but it was at least one more premiere to add to Cheltenham's 1997 tally.

Cheltenham International Festival of Music continues until July 20.

INTERNATIONAL ARTS GUIDE

■ CHELTENHAM

CONCERTS
Cheltenham Festival
Tel: 44-1242-227979
Bournemouth Symphony Orchestra: conducted by Paul Daniel in works by Brahms, Scherwitsch and Mozart; at the Town Hall; Jul 16

■ DROTNINGHOLM

CONCERTS
Drottningholms Slottsteater
Tel: 46-8-4570600
Eurovision by Jacopo Peri. Swedish premiere. Produced by Karl Dunér, and designed by Peder Freij, with the Drottningholm Theatre Orchestra conducted by Jakob Lindberg; Jul 15, 16, 18

■ GRAZ

CONCERTS
Styriarte Festival
Tel: 43-316-825000
Handel's Fireworks: Jordi Savall conducts the Concert des Nations in the Festival's final concert

Purcell's Fairy Queen Suite and Handel's Music for the Royal Fireworks; at the Stefanienaal; Jul 20

■ LONDON

CONCERTS
BBC Proms, Royal Albert Hall
Tel: 44-171-589 5212
● Bernard Haitink conducts the BBC Symphony Orchestra, Chorus and the BBC Singers in Beethoven's Missa Solemnis; Jul 18
● Nicholas McGegan conducts selections from Mozart and Schubert's one-act opera *Die Verschworenen*, performed by the Orchestra of the Age of Enlightenment. Soloists include soprano Hildegarde Martinello; Jul 19
● World premiere of a new work by Michael Gordon and UK premiere of John Adams' *Scratchband* plus music by Steve Reich, Lou Harrison, Philip Glass and Frank Zappa. Performed by the Ensemble Modern and conducted by John Adams; Jul 20

DANCE

London Coliseum
Tel: 44-171-632 8300
● The Kirov Ballet: Symphony in C/Giselle - Balanchine's masterpiece is staged for the Kirov by John Taras of New York City Ballet, with casts to include all of the company's leading ballerinas; Jul 15, 16, 17
● The Kirov Ballet: The Sleeping Beauty - casts vary; Jul 18, 19

EXHIBITIONS

British Museum
Tel: 44-171-636 1555

Arts of Korea: overview of Korean art and archaeology ranging from the Neolithic period to the 19th century. Exhibits include a royal gold crown from the Silla kingdom, early Buddhist manuscripts, Koryŏ ceramics and 18th century landscapes. The exhibition is scheduled to run until 2000, when it will be replaced by a new, permanent Korean Gallery.

THEATRE

Shakespeare's Globe
Tel: 44-171-401 9919
Henry V: by Shakespeare; Mark Rylands stars as the young king in a production directed by Richard Olivier and designed by Jenny Tiramani; in repertory

■ LOS ANGELES

EXHIBITIONS
Museum of Contemporary Art
Tel: 1-213-626 6222
Jeff Wall: first retrospective exhibition of the Canadian artist whose photographic work draws on the narrative traditions of tableau painting; the exhibition has been seen in Washington and will travel to Japan; to Oct 5

■ NEW YORK

Lincoln Center Festival 97
Tel: 33-1-44791300
CONCERTS
● New York Philharmonic at the Avery Fisher Hall. Music director Masur's 70th birthday is to be celebrated in a programme of popular favourites. With Anne-Sophie Mutter and other guest artists to be announced; Jul 18

● New York Philharmonic at the Avery Fisher Hall. Kurt Masur directs a programme exploring counterpoints to Wagner, featuring the rarely performed Mendelssohn oratorio *Die erste Walpurgisnacht* and the Brahms Violin Concerto; Jul 19, 20

DANCE

● The Royal Ballet at the Metropolitan Opera House: *The Prince of the Pagodes*. Music by Benjamin Britten. NY premiere of this three-act ballet, choreographed by Sir Kenneth Macmillan. Doreen Russell is Princess Rose; Jul 18, 19
● The Royal Ballet at the Metropolitan Opera House: *Cinderella*. Revival of Sir Frederick Ashton's ballet, set to Prokofiev's score; Jul 20

THEATRE

Les Danaïdes: US premiere of Silvio Purcarete's reconstruction of Aeschylus' 470 BC tetralogy. Performed in French with English subtitles; Damrosch Park, 62nd St near Amsterdam Ave; to Jul 20

■ PARIS

DANCE
Opéra National de Paris, Palais Garnier
Tel: 33-1-43436666
Sylvia: the Opéra Ballet performs a new version, with fresh choreography by John Neumeier, to music by Delibes; Jul 15

OPERA

Opéra National de Paris, Opéra Bastille
Tel: 33-1-44791300
Rigoletto: James Conlon conducts Jérôme Savary's staging of

Verdi's opera, with sets by Michel Lebols; Jul 15

■ ROME

CONCERTS
Accademia Nazionale di Santa Cecilia
Tel: 39-6-6980 1044
● European Union Baroque Orchestra: conducted by Roy Goodman in a programme of works by Vivaldi, Telemann, Bach, Quantz, Heinrich and Rameau; Jul 18
● Orchestra dell'Accademia Nazionale di Santa Cecilia: conducted by Myung-Whun Chung in works by Weber, Schubert and Beethoven; Jul 17

■ SALZBURG

THEATRE
Salzburg Festival
Tel: 43-662-844501
Jedermann: by Hugo von Hofmannsthal. Revival of Gernot Friedel's production, designed by Imre Vincze; at the Domplatz; Jul 20

■ SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-986 5900
La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in the Persian desert. Christopher Larkin conducts; Jul 18

■ TANGLEWOOD

CONCERTS
Tanglewood Festival
Tel: 1-817-931 2000

Seiji Ozawa conducts the Boston Symphony Orchestra in works by Takemitsu, Mozart and Beethoven. With piano soloist Peter Serkin, baritone Mark Oswald, and the Tanglewood Festival Chorus conducted by John Oliver; at the Shed; Jul 18

OPERA

Les Mamelles de Tirésias: fully staged production of Poulenc's opera, directed by David Kneuss, preceded by two vocal chamber works by Ligeti; performed by the Tanglewood Music Center Vocal Fellows and Orchestra, conducted by Seiji Ozawa; at the Theatre; Jul 17, 19

■ VERONA

OPERA
Arena di Verona
Tel: 39-45-800 5151
● Aida: by Verdi. Conducted by Nello Santi in a production originally staged by Gianfranco de Bosio, revived by Susy Attendoli; Jul 18
● Carmen: by Bizet. Conducted by David Giner, in a staging by Franco Zeffirelli. Agnes Baltsa and José Carreras recreate their famous double-act on Jul 19, 22 & 25

■ WASHINGTON

CONCERTS
Wolf Trap Tel: 1-703-255 1860
National Symphony Orchestra: conducted by Elizabeth Schulze in works by Tchaikovsky, Prokofiev and Rimsky-Korsakov. With violin soloist Sarah Chang; Jul 17

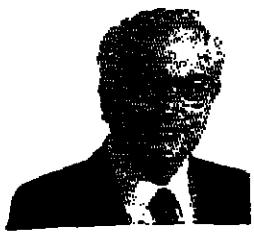
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COMMENT & ANALYSIS



Martin Wolf

No more than a blip

Thailand's currency 'crisis' is an inevitable consequence of overheating but will quickly pass as strong economic fundamentals reassert themselves

"In the last year the [Thai] economy has slowed to a crawl, with growth falling to 6.7 per cent from 8.5 per cent a year earlier," declared the respected Economist Intelligence Unit on July 7. In almost any other region, this would appear the pace of an Olympic sprinter.

This background must be remembered when parallels are made between Thailand in 1997 and the Mexican crisis of 1994 and 1995. As then, the country has had a current account deficit of 8 per cent of gross domestic product. As then, it has had to abandon a peg against the US dollar. As then, an overvalued exchange rate is exposed to collapsing demand. As then, the regional economic superpower fears the consequences. As then, there is the risk of a contagious spread across the region.

Yet these parallels must not be exaggerated. Mexico has been struggling to become what Thailand already is - one of the world's most dynamic and successful economies. Back in 1970, Mexico's real income per head (at purchasing power parity) was some 2.4 times more than that of Thailand. By 1995, Thailand's real income per head was nearly 20 per cent higher than Mexico's.

In 1995, Mexico's gross domestic savings were 19 per cent of gross domestic product; Thailand's were 36 per cent. Mexico's debt service was 24.2 per cent of exports; Thailand's was 10.3 per cent. Private non-guaranteed debt was only 11 per cent of Mexico's total debt; it was 37 per cent of Thailand's. Mexico's exports of goods and services were 25 per cent of GDP; Thailand's were 42 per cent. Between 1990 and 1995, the volume of Mexico's exports grew at 14.7 per cent a year; Thailand's grew at 21.6 per cent.

Thailand could still

finance one of the highest rates of investment in the world without a cent of net capital inflow. One year of import stagnation and one year of export growth at its rate in the first half of the 1990s would close the current account deficit.

It would be just as reasonable to compare the currency turmoil in east Asia today with the disintegration of the hard exchange rate mechanism of the European Monetary System between September 1992 and August 1993. In Europe, German unification made the ERM unworkable. In east Asia, it has been the gyrations of the dollar against the yen. Just as many now call the sterling devaluation of September 1992 "white Wednesday", so people are likely to see the decisions by the Thai and Philippine authorities to float their currencies as the beginning of recovery.

Yet even if this turmoil will seem, in retrospect, no more than a blip on the path of rapid east Asian economic growth, it is important to learn its lessons. To do so one must try to understand what has happened.

East Asian developing economies grew very rap-

idly during the recession in the high-income countries of the early 1990s. Between 1990 and 1995, for example, average annual growth was 12.8 per cent in China, 8.7 per cent in Malaysia, 8.4 per cent in Thailand, 8.3 per cent in Vietnam, 7.6 per cent in Indonesia and 7.2 per cent in South Korea.

Regional growth was impervious to developments in the high-income countries partly because of the dynamism of intra-regional trade. Since the mid-1980s, roughly half of the increase in the exports of east Asian economies went to one another.

A big stimulus to exports from east Asian developing countries was the decline in the US dollar against the Japanese yen. For Thailand, with an exchange rate pegged against the US dollar, this meant greater competitiveness in both the Japanese market and against Japan-based production in third markets.

Very high economic growth makes an economy a honeypot for the lending bees. With a fixed exchange rate and eroding controls on capital flows, the authorities can halt neither domestic credit expansion nor the

capital inflow. Thus, in its latest annual report, the Bank for International Settlements states that in the early 1990s Asia experienced "an extraordinary expansion in the ratio of bank credit to GDP that has no recent parallel in the industrial countries".

In Thailand, the ratio of GDP of bank credit to the private sector rose from 28 per cent in 1980 to 89 per cent in 1995, much of this coming in the first half of the 1990s. But Thais were not content with borrowing at home. Companies and individuals owe more than \$70bn abroad, a sum equal to about half the country's economic output.

In Thailand, as elsewhere in east Asia, difficulties began with the export slowdown last year. For this there were three main explanations: an 18 per cent real appreciation of the baht against the yen between 1995 and 1996; the worldwide slowdown in exports of electronics; and, more important for Thailand, a deterioration in its competitiveness in traditional labour-intensive exports as real wages rose 45 per cent between 1990 and 1994.

Deteriorating export performance and slower economic growth made the current account deficit look unsustainable. As the bears rushed for the door, the Thai authorities raised interest rates to protect the exchange rate: by early 1997 real interest rates were above 8 per cent. The impact of high real interest rates on financial stability ultimately persuaded them to abandon the peg on July 2.

This pattern is quite familiar, as is the contagion that is now spreading through the region from the most vulnerable to the slightly less vulnerable. For Europe in 1992 and 1993, read east Asia in 1997. Thailand and the Philippines have conceded defeat. Mal-

aysia is under attack. But, at worst, currencies will float freely for a while. In time the strong fundamentals of east Asian economies will reassert themselves.

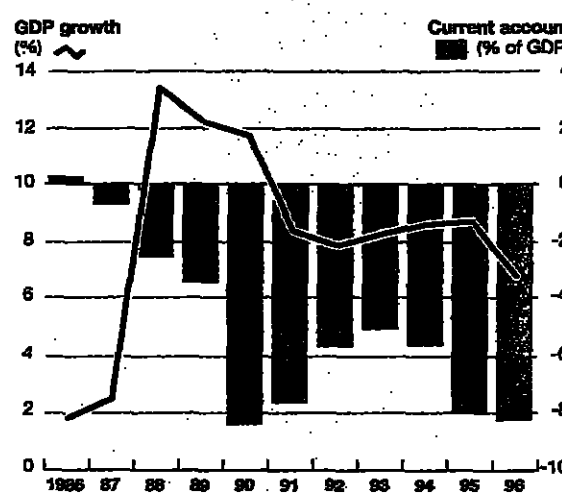
What are the broader implications of this episode? First, fixed exchange rates are particularly problematic for economies that are vulnerable to shifts in exchange rates between two or more significant currencies. Unless it can make a success of a currency board, a country should either float freely or fix against a currency basket with sensible weights for the currencies that matter to it and a big enough fluctuation margin to give some interest-rate autonomy.

Second, financial instability and market economies go together like a horse and carriage. Look at the number of banking crises that have afflicted high-income countries over the past two decades. But this is particularly true in fast-growing economies with mollycoddled banking systems, inexperienced regulators and sudden access to world financial markets. Merely deregulating such a financial system is not reform. It is a recipe for disaster.

Finally, those directly engaged in the financial crisis - borrowers and lenders, foreign and domestic, financial and non-financial - will learn only if they confront its consequences. The government's responsibility is not for individual borrowers or lenders, but for the financial system as a whole. Similarly, the job of international financial institutions is to minimise the costs of adjustment for the population at large.

Each episode of instability serves as a salutary warning that what is fashionable today is quite likely to be unfashionable again tomorrow. The more regularly people are reminded of this, the better.

Thailand: fast growth and huge deficits



Source: Asia Pacific Profiles

Bullies in the boardroom

British rhetoric about employees being vital assets is ringing hollow, writes John Plender

After years of downsizing, de-layering and re-engineering, a punch-drunk British workforce hardly looks ready for a return to confrontational industrial relations. Yet the strike at British Airways, complete with management pressure and inter-union rivalry, raises questions. Is this the first sign of a shift in power back to the workers as labour market conditions tighten? And have managers become complacent in their attitudes to the workforce?

The British Airways saga admittedly looks more of a throwback than a forward indicator. Most occupants of British boardrooms would reject charges of complacency or macho management. Yet there is evidence that business leaders are failing to carry employees with them as they continue to restructure. The standard rhetoric about "empowered" employees being vital corporate assets rings increasingly hollow.

Consider recent data from International Survey Research (ISR), a consultant whose employee opinion surveys cover 450 companies in 18 countries. Some findings in its latest survey, such as the free-fall in feelings of employment security throughout Europe, are predictable enough. Nor is it surprising that stakeholder-type economies such as Switzerland, Norway and the Netherlands tend to have the most contented workforces.

The UK's ignominious position - second only to Hungary at the bottom of the league for employee satisfaction - will no doubt be dismissed as British workers enjoying a moan. And the fact that UK management is judged less favourably by employees than managers elsewhere will prompt a similar response.

Yet when ISR's work is looked at over a period of years, it is less easily brushed aside. Take the pro-

gressive collapse in the morale of the UK workforce since 1990. The trend is odd because it defies the logic of the economic cycle. Recovery has brought deterioration, not improvement.

Also odd is the workforce's view of management. At the depths of the recession earlier in the decade, UK employees, though dissatisfied, were still taking a favourable view of their managers compared with the rest of Europe. Today, in spite of a marked increase in the rate of UK earnings growth, disillusionment appears total.

The clue comes with the ISR survey published at the end of 1995. This revealed that UK worker attitudes had suffered "the most precipitate decline" of any European country over the previous 10 years. Motivation and commitment to the company were lower even than in the strife-torn days of the mid-1970s.

The timing is significant because this was the first survey after the notorious British Gas annual general meeting at which the investment institutions sanctioned a much-increased pay package for the company's chief executive, Mr Cedric Brown - this when profits were down, customer service was deteriorating and employees

The ISR survey revealed that UK worker attitudes had suffered 'the most precipitate decline' of any European country over the previous 10 years

were being shed in large numbers.

The message is clear enough. Far from being a little local difficulty in the privatised utilities, the "fat cat" pay saga had a much wider demoralising impact which is still being felt.

It does not follow that British workers are about to take to the picket lines en masse. As long as insecurity is endemic, and the main legislative reforms of the past 18 years remain intact, the unions will not resume their former mantle. Nor does the government of Mr Tony Blair, a friend of BA chief executive Mr Bob Ayling, appear keen to take an active role in the dispute at the airline.

The more practical conclusion is that business does have a problem of legitimacy. There is much talk about a new psychological contract, whereby companies tell employees they can no longer offer security but will offer training in lieu to enhance employability.

There is also a view that employee satisfaction is a key performance indicator. Yet surveys show that workers feel diminishing loyalty. In effect, a contract which views the employee as both an asset and a cost has an innate tension. If it operates against the background of ever-widening pay differentials between shopfloor and board, or runs into the BA style of management, it may become untenable.

There is a growing recognition among economists that trust is a valuable commodity. At national level - as in the stakeholder economies mentioned earlier - it can enhance growth. When it exists between the various stakeholders in a business it reduces costs and enhances competitive advantages.

If British business wants to achieve the highest standards on a sustainable basis, it badly needs to absorb this lesson.

LETTERS TO THE EDITOR

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Bigger not better in financial regulation

From Mr Miguel N. Arrollo.

Sir, Henry Kaufman's article "A safe and sound system" (July 7) was excellent. However, I disagree with its main conclusions. Yes, globalisation of financial markets has come, hand in hand, with securitisation, increase of derivatives, and other factors which, apparently, add up to the inner instability of finance.

But is this sufficient to explain the most serious incidents of instability in the recent years? Not mentioned was an additional cause of

instability of the markets: the flood of national debt in recent years, which in the EU amounts to more than 70 per cent of gross domestic product.

Another important factor - the huge fluctuation of world money supply - is mentioned, but apparently no one is responsible for it. Now we are living in a period of very cheap money, whose effects are leveraged by a period of optimism and low money demand, without much fundamentals, as you say in your leader "An

emerging bubble" (July 10). My opinion is that some central banks should have reacted some time ago to get a soft landing. But central banks seem to watch only consumer and other flow-prices indices, and neglect other clues, like asset prices. The recent experience of the speculative bubble and subsequent crash in Japan (by the way, a country with highly regulated finance) should have been an example, but it was not.

Taking this into account, I believe that it is quite haz-

ardous to propose that governments and central banks that have not been able to keep their own finance house in order should be empowered to supervise financial stability at an international level. I do not understand why so many people believe that institutions which do not work at a national level will work if their power is transferred to an international one.

Miguel N. Arrollo, Uruguay 8, Madrid 28016, Spain

Question marks that hang over euro

From Mr Richard A. Werner.

Sir, Professor Paul De Grauwe rightly argues ("The credibility deficit", July 11) that fears about weakness of the euro should not be based on an arbitrary 3 per cent deficit hurdle. He correctly points out that other factors determine exchange rates. Indeed, the exchange rate is a function of economic performance and monetary policy. His conclusion however, that "one can be confident that the euro will not lose its purchasing power faster than the D-mark", does not follow. Certainly not from the chart he masters in support of his argument: according to his figures, the D-mark appreciated by about 120 per cent from 1970 to 1996, while the majority of European currencies depreciated by double digits.

We are reminded of two things:

● Since the euro will pre-

vent any further appreciation of the D-mark against European currencies, which would likely happen otherwise, it can only be weaker than a future D-mark would be.

● The chart shows which currency the markets have already chosen as their favourite European currency: the D-mark. The prize for successful PR goes to Brussels for selling to the European public as the introduction of a European currency what amounts to the abolition of the *de facto* European currency.

Any arguments in favour of the euro are steeped in contradictions. If the Bundesbank's policies can be replicated easily by other central banks, why have they not done so in the past? Why have they instead been forced to peg theirs to the Bundesbank? Why not, then, stick to the D-Mark? Or is

the euro perhaps about diluting the influence of German monetary policy? If so, then how can the euro be as strong as the D-mark?

Thus, if the euro is introduced for economic reasons, it does not make sense. And if it is introduced for political reasons, then the economics is worrying. And, indeed, the politics as well - why hand an unprecedented degree of centralised control over the welfare of the entire European region to a small number of unelected people? Where are the checks and balances? Currently, countries at least can opt out if they don't want to follow the Bundesbank policies.

Richard A. Werner, chief economist, Jardine Fleming Securities (Asia), Yamato Seimei Building, 1-1-7 Uchisaiwai-cho, Tokyo 100, Japan

The middle misses out

From Mr Kenneth Armitage.

Sir, Lucy Kellaway ("Smile, visit the bookshop and learn how to be cool", July 14) suggests that, "if work structures really were flat and if employees really were organised in teams", then companies might work more closely together. The real point is, surely, that if flatter management structures make companies more egalitarian than it naturally follows that flatter pay structures should be the norm.

In reality, the current system appears designed to reward only the upper echelons and, usually, at the expense of middle management.

Kenneth Armitage, 6 Deben Valley Drive, Kesgrave, Suffolk IP5 2FB, UK

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EU has conceded moral ground on jurisdiction over Boeing

From Dr Jörg Schimmler.

Sir, The European Commission, in flatly rejecting Boeing's proposal of an independent investigation into state aid given to aircraft manufacturers ("Brussels shuns Boeing plea for aid audit", July 11), has finally conceded any moral ground for extending its jurisdiction beyond the EU by trying to reject the Boeing/McDonnell

Douglas merger. It never had an economic case either.

While European aircraft industries - via Airbus and the Eurofighter - had begun to consolidate long ago, the US is only following now. The reason is easy to see. Due to its large development - i.e. fixed - costs, any domestic market for passenger aircraft is a natural monopoly. One competitor may survive, while two cannot. As a con-

sequence, either they merge or at least one of them will, sooner or later, have to be bailed out by the government. Anyway, it would be an economic waste. Similarly, it is highly unlikely that even a global market could support more than two suppliers, making it a natural duopoly.

In theory, there might be an anti-trust case to answer. But, as especially the UK

experience shows, the costs of managing artificial markets such as those created in the National Health Service or the privatised rail industry quite often outweigh the welfare loss that would arise from a monopoly.

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FINANCIAL TIMES

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Tuesday July 15 1997

Global risks in banking

Central bankers around the world are becoming nervous and their concerns are not confined to the current financial turmoil in Asia. The recent annual report from the Bank for International Settlements (BIS), the central bankers' bank, worries that the frothiness of markets could have systemic consequences. The state of the international payments and settlements systems is a continuing focus of BIS concern.

These remarks came after Mr Alan Greenspan's comments about irrational exuberance in markets. And they echoed earlier strictures from Mr Gerald Corrigan, a former head of the Federal Reserve Bank of New York, who warned that the growing complexity and integration of financial flows would make it much harder to manage shocks such as the 1987 stock market crash.

Now comes a report from the Group of Thirty, a top financial think tank, which explores the scope for limiting systemic risk in a world where the larger financial institutions and markets have outgrown national accounting, legal and supervisory arrangements. Improved crisis management, it argues, will become more difficult against that background.

Amid all this concern, practitioners appear relatively confident. A survey in the G30 report shows that while leading global

institutions put the likelihood of a serious disruption of the international financial system at one in five over the next five years, they see no threat to their own survival or that of their counterparties. Any shock is not expected to spread far beyond the point of impact.

Yet this looks complacent. Few institutions in the survey could assess risk on a global basis at the push of a button. A large minority did not stress-test risk management systems adequately. All worry about the consequences of a settlement system becoming fouled up.

The G30's recommendations for agreed global rules for better risk management command respect. Inevitably there will be difficulties: in countries with several supervisory bodies it may be difficult to agree on a single national co-ordinator to oversee global institutions.

A more fundamental point is that if the potency of supervision is heavily eroded in today's complex global markets, a much bigger cushion of capital is needed than practitioners are prepared to admit. The snag is that it is difficult to persuade banks or governments of the case before a crisis has made the need for more capital obvious. Since many global players are likely to be deemed too big to fail if threatened with insolvency, taxpayers of the world are heavily at risk.

Gene patents

European parliamentarians will today debate gene patenting. Tomorrow they vote on a directive that would harmonise gene patent rules across the European Union. A vote against could tempt some of Europe's fastest growing high-technology businesses to shift resources to the US where such patenting is taken for granted.

A vote in favour would anger environmentalists, church leaders and a significant number of EU citizens who fear that life itself is becoming a commodity. Yet this is the choice parliamentarians must make.

Europe's gene patent rules are a mess. The European Patent Office grants patents on genes, but EU member states' patent offices need not. The directive harmonises the rules in favour of allowing gene patents. Its opponents argue that patents are intended to protect inventions, not discoveries. Since genes exist anyway, they are discoveries. Indeed, if they belong to anyone, they belong to us all.

Rightly or wrongly, patent offices have long ignored this argument. Many drugs are isolated from natural sources and are as patentable as those synthesised in the lab. The point is that a patent can be granted only if there is an "inventive step" involved. For example, a gene per se cannot be patented; some aspect of its function or

application has to be new knowledge. It is essential that patent offices observe this rule: without it, gene patenting would clearly be objectionable.

Opponents also say that patents stifle research by keeping knowledge proprietary. This is partly true. Only non-commercial research can continue on patented things. But wealthy pharmaceutical and biotech companies are increasingly contributing to academic research funding. Research with no commercial input is increasingly hard to find.

However, the effects of this are limited. Patenting makes public what could otherwise be kept secret. The courts could enforce a generous interpretation of what counts as commercial research so as to encourage academic work. And patents last 20 years, not forever.

On the other hand, gene research has clearly made the most progress in the US and UK where patenting genes is straightforward. Drugs companies in Germany and Switzerland, where environmentalists are strong, carry out most of their gene research abroad.

A vote against the directive would leave the current patchwork of patent rules in place. It would not resolve any of the moral issues. But it would make the US the first choice for private sector medical research, and Europe would be the loser.

Arm's length

The fuss over Lord Simon's holding of BP shares highlights the wider issues of relations between business people and government. Lord Simon, minister for trade and competitiveness, resigned as chairman of BP to take the job and put most of his assets into a blind trust. But outside the trust he retains 32m worth of shares in his old company. This has provoked Conservative claims of a conflict of interest.

Labour says these claims are sparked by jealousy that so many senior business people have agreed to help the government. They include Mr Martin Taylor of Barclays, Sir Peter Davis of Prudential, and Mr Chris Haskins of Northern Foods, all of whom are chairing advisory committees. More widely, the government is relying heavily on partnerships with business in areas from private financing for infrastructure to unemployment policy.

It is perfectly proper for a government to invite a business leader to switch to a political career. This requires careful handling of the potential conflicts, however, and Lord Simon might have done better to address the issue directly at an earlier stage. Though he has no involvement in energy policy, BP is so intimately entwined with the British economy that his continuing interest in BP shares inevitably exposes him to criticism. This controversy also highlights the fact that the

skills required for success in business are very different from those needed in politics.

A different, equally proper, relationship is one where the government asks business people to advise it on specific issues. Both sides should be aware, however, of the potential dangers. Business people can usefully provide detailed advice on technical issues, or on how to achieve a clearly specified objective. What they cannot do, however much governments might wish it, is solve intractable political issues. Mr Taylor and Sir Peter Davis - venturing into the tricky areas of employment and welfare - must hope they do not find out the hard way that advising governments can be a thankless task.

The potential for mischief is greater in the partnerships between government and business that Labour espouses so energetically. It is in the public interest for the two sides to operate at arm's length. In some cases, such as private finance of infrastructure, the interests of taxpayers and business are opposed, since every extra pound spent on a project comes from the public purse. More generally, the country would be best served by maintaining clear separation between the private interests of shareholders and the public good. Sometimes these will run together, sometimes they will be distinct. It does no one any favours to pretend they are identical.

One-sided marriage

The merger of Morgan Stanley and Dean Witter adds more to the retail arm than to the investment bank, says Tracy Corrigan

Mr Philip Purcell, chairman of the newly merged Morgan Stanley, Dean Witter, Discover, may be getting a taste for standing ovations. That is certainly the reaction he got when he walked into the first of his regular meetings with Dean Witter's retail brokers following February's announcement of a merger with Morgan Stanley, the US investment bank.

The creation of a financial services powerhouse to rival Merrill Lynch by marrying an investment bank that produces securities with a brokerage that sells them seems to have pleased the sales force. "The brokers love it," says Mr Purcell, who is chairman of Dean Witter Discover, America's third largest brokerage, helped instigate one of the biggest financial couplings in history.

The reason for their enthusiasm is that the merger, finalised on May 31, has helped them do their jobs better, according to Mr John Mack, Morgan Stanley Dean Witter's chief operating officer. Morgan Stanley's investment banking business provides Dean Witter's brokers with more securities and better research on companies and markets, while its fund management arm manufactures additional investment products for them to sell.

The US retail business has been booming for some time. Last year, mutual funds took in a total of \$324.9bn (£192bn) of net new cash - \$100bn more than the previous record. Dean Witter's retail network had been successfully harvesting more than its share of that growing market.

But it had a handicap: most of the securities it distributed were originated elsewhere, by the investment banks, such as Morgan Stanley and Goldman Sachs, which dominate the underwriting market.

Dean Witter "had been doing well [before the merger]," according to Mr Raphael Soifer, financial services analyst at Brown Brothers Harriman. But the increasing dominance of securities underwriting by a small number of firms posed a threat to "the future of [retail] firms without product," he says. "On a long-term basis, Dean Witter probably did need to do something."

Prior to the merger, Dean Witter underwrote some securities. But even in so-called "retail product" areas - typically investments earning a relatively high income such as utility stocks, real estate investment trusts and preferred stock - Dean Witter tended to have only a minor underwriting role.

Since the merger, according to Mr Purcell, the firm has started to arrange such deals thanks to Morgan Stanley's investment banking prowess. Morgan Stanley Dean Witter last month arranged a global \$400m deal for F&C, a real-estate investment trust. Not only did it wrest the mandate from Smith Barney, but it was able to sell more than 30 per cent of the deal through Dean Witter's retail distribution network.

More important still, Morgan Stanley is regularly involved in deals previously beyond Dean Witter's reach, such as foreign privatisations. Such securities can now be offered to Dean Witter



retail clients. Furthermore, Dean Witter's 9,000 account executives or brokers can now plug into Morgan Stanley's vast network of research analysts; Mr Purcell admits they previously had "limited access to research". Dean Witter's analysts only covered the US market, leaving several vital industries, such as technology, completely ignored.

The stated aim of the Dean Witter Morgan Stanley merger was always to increase revenues, not to cut costs. In the event, fewer than 250 jobs, from a total of 40,000, were lost. There was virtually no overlap, says Mr Mack. "These are different businesses."

The retail business is the obvious target for earnings growth, says Ms Sallie Krawcheck, securities industry analyst at Sanford Bernstein. "They are taking broker productivity up with a broader range of products, they are retaining the best brokers, and they are getting in great new brokers," she says.

With 9,000 brokers, Dean Witter was already the fastest-growing US brokerage, according to Mr Purcell. Last year alone it added 500 new account executives. But as a result of the merger, he says, the pace of growth can be accelerated dramatically; he expects to add 750 account executives this year, largely by reducing staff turnover.

"It's now very difficult to recruit an account executive from Dean Witter," he says. Before the merger, rival firms "could offer more product or maybe better research" - as well as more money.

On the other hand, investment

banking earnings, where industry revenues have been stagnant after a bumper year, will be virtually flat, says Ms Krawcheck. The question, then, is not what has Morgan Stanley done for Dean Witter, but what can Dean Witter do for Morgan Stanley?

Not surprisingly, Mr Purcell and Mr Mack claim the investment bankers are as enthusiastic as the brokers. "We were sure we'd get more underwritten equity product, but we have done double the sales in June that we did [a year ago] and it will be the same in July," says Mr Mack.

Some observers are less sure of the benefits to investment banking. "The part [of the merger story] that is convincing is the ability of the Dean Witter sales force to sell Morgan Stanley investment management products," says Mr Soifer. But in investment banking, he argues, the impact is "smaller and more spotty".

At a pinch, the merger may benefit Morgan Stanley's deal-pulling ability in certain markets such as preferred stock and municipal bonds. But, says Mr Soifer, in most markets Goldman Sachs - a leading US investment bank with no retail distribution network - has "no trouble distributing [securities] and neither did Morgan Stanley before the deal".

According to an investment banker at a rival firm, Morgan Stanley's investment bankers "barely acknowledge that [the merger] has happened". Morgan Stanley "prides itself on its tradition and pedigree," he says. Its bankers are not keen to be asso-

ciated with a retail brokerage firm which they consider to be down-market. Significantly, the name used by the M&A advisory business is still Morgan Stanley.

Morgan Stanley's 250 private client brokers - who deal only with the very rich - are not pleased that 9,000 brokers can now say they are from Morgan Stanley Dean Witter. Rivals say there have been several departures of disgruntled brokers, but Morgan Stanley says only one senior person has left.

Nonetheless, there are signs that, in spite of the fairly smooth integration and limited job losses, the merger may not be immune to the culture clashes that have plagued previous couplings of investment banks and brokers. Such conflict was most evident in the aborted union of Shearson and Lehman Brothers.

If Morgan Stanley's investment bankers are not euphoric, shareholders have reason to be cheered. Ms Krawcheck believes the merged company will see double-digit earnings growth. It will also have "a more stable earnings base than Merrill Lynch" because of its additional diversification through the Discover credit card business.

The Discover credit card franchise of 48m cardholders, built from scratch in 10 years, is the last part of the equation. Last week, Mr Purcell said he was considering launching a direct banking business under the Discover name. The firm's internet broking business recently changed its name to Discover Brokerage Direct after research showed the Discover brand has the strongest appeal to cost-conscious customers. There has also

been talk of selling investment products under the Discover brand, though analysts point out that American Express, when it owned Shearson Lehman, never managed to exploit the Amex brand in this way.

The credit card business aside, the merger of Morgan Stanley and Dean Witter was fundamentally driven by the success of Merrill Lynch. Known as the "thundering herd", Merrill dominates both the underwriting and brokerage business, and its strong retail network has widely been seen as a vital factor in the development of its underwriting business in the past 20 years.

But, in spite of repeated efforts by the likes of Smith Barney, no other brokerage firm has managed to replicate Merrill's success. The question is whether Morgan Stanley Dean Witter has succeeded in pulling it off in only a few months. "They haven't done it; they've [just] set up the structure," argues Mr Soifer. "The cultural issues will take a while to work through," he says, referring to the potential clash between "star" investment bankers and retail brokers.

"One of the things that gets lost in history is how long it took Merrill Lynch to build its investment banking business," says Mr David Komansky, Merrill's chairman. Mr Komansky nevertheless makes it clear he does not underestimate the challenge from the newly-merged rival.

Morgan Stanley, Dean Witter, Discover - its unwieldy name apart - appears to have the clout, the scale, and certainly the ambition to challenge the thundering herd. Overtaking it may be another matter.

OBSERVER

Chemical formula

ICI's founding fathers must be twiddling in their graves at the sale of its industrial chemicals side. Sir Alfred Mond and Sir Harry McGowan - who created ICI in 1926 - never had much time for the new-fangled specialty chemicals which will now be the company's mainstay.

ICI's authorised history says Mond - later Lord Melchett - regarded specialty chemicals as "additions and inconsiderable compared with the real business of bulk production. The grand old men would probably regard selling to DuPont with equal misgivings; the main reason for forming ICI in the first place was to enable the UK chemicals industry to compete on equal terms with the venerable US company and with the then German behemoth IG Farben."

Of course, modern-day ICI boss, Charles Miller Smith - bought in three years ago from Unilever and charged with ridding ICI of its stodgy management culture - is probably glad to be throwing off the yoke of history.

DuPont, for its part, is looking to more recent events: the last big deal the US creator of nylon, Lycra and Teflon did with ICI was in 1988, when it bought its nylon business. In DuPont's 1996 annual report, chief executive

Jack Krol says that's what he calls a good deal.

Fire toll

It looks like low-level stampedes may be lined up for the weekend fire at a luxury hotel in Pattaya, Thailand, in which 50 people died. Fire alarms and sprinkler systems didn't work, and fire exits had been locked to prevent guests slipping but without paying.

It's all too reminiscent of events in Thailand in 1993: 188 died in a toy factory fire because fire exits were locked, and 86 died in the collapse of a hotel, which had been illegally extended. Recently, fire exits from Bangkok shopping malls have been found to be locked, and owners have refused to allow firefighters inside in case they steal merchandise.

The weekend fire claimed 10 lives; victims, they tried to help in the rescue effort when they heard that fire trucks with hydraulic ladders weren't being sent from Bangkok to fight the fire in the 17-storey hotel - it took over two hours for Bangkok bureaucrats to give permission.

This Nation newspaper, in a front page editorial, described the Pattaya tragedy as a demonstration that "the bubble did not just burst in the economy, but also in the rule of

law". The manager of the hotel's coffee shop has been detained.

Left turn?

Will Bild-Zeitung, Europe's biggest-selling daily newspaper, and its long-standing support for Chancellor Helmut Kohl? Springer Verlag, the paper's owner, has announced that Bild political editor Kai Diekmann, who's close enough to Kohl to have co-written a book with him, is going off to head the group's unloved foreign news service, which isn't widely seen as a strong career move.

So loyal has the paper been to Kohl's centre-right government that it recently turned down an advertisement from a pressure group protesting against a single European currency. German media-watchers wonder whether Bild may emulate Rupert Murdoch's Sun, the top-selling UK tabloid, which switched its noisy loyalty to the centre-left in this year's general election.

Wrong number

Israel's former Labour government had promised employees of Israel's state-owned Bezeq telecoms outfit a slice of any public offering. So yesterday's private placement of 12.5 per cent of the company with Merrill Lynch

came as a bit of a shock. Bad enough worrying about redundancies as new management takes over without losing a stake in the new private-sector future.

As irritated staff pulled the plug on services and repairs, Tzipi Livni, the official in charge of the government's privatisation agency, made a new pledge. The workers would reap rewards when the next tranche of shares - 11.5 per cent - was sold later this year and, yes, it would be a public offering. She promised. Bezeq workers are sending a delegation to Jerusalem. Just to make sure.

Tongue twister

It can't be much fun being interpreter for US Secretary of State Madeleine Albright, who's a bit of a linguist. Trying to interpret into Czech, her native language, must be a nightmare. Observer feels sorry for Ivo Ruzicki, the State Department interpreter assigned to Albright for yesterday's visit to her birthplace, Prague. No interpreter was needed in Albright's talks with Czech President Vaclav Havel, but during their joint press conference afterwards, she corrected Ruzicki sharply three times before he gave up and left the whole shooting match to Havel's Czech interpreter.

Financial Times

100 years ago

Gold Dust in Alaska
For men with a stern devotion to duty, command us to the front. The "Daily Mail" One of them cables information from New York concerning the greatest boom of the century. Up Alaska way, on the Klondike gold diggings, wages are \$15 a day, and "gold dust a mere drug in the market." We commend that correspondent. Most men would have slunk off quietly in search of the gold dust and left their editors in the lurch. He might have become a rich man while the miners were searching for solid blocks of the metal.

50 years ago

Re-Fuelling In The Air
On 31st May, Air Vice-Marshal Donald Bennett, chief executive of the British South American Airways Corporation, landed at London Airport following the first of a series of experiments in re-fuelling an aircraft in flight. His aeroplane, a converted Lancaster, had to be re-fuelled by a special tanker aircraft as it flew over the Azores on its non-stop 4,000 miles journey to Bermuda. The process was repeated on the return flight, a total of 3,400 gallons of petrol passing between the aircraft on the two trips.

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FINANCIAL TIMES

Tuesday July 15 1997

Fountain Forestry

FOR PRIVATE AND CORPORATE LANDOWNERS,
UTILITIES, LOCAL AUTHORITIES...

UNITED KINGDOM: 01295 750000
UNITED STATES: 001 601 415 8234

Bank drops support for currency at level defended for two months Kuala Lumpur lets ringgit fall

By James Kyngie
in Kuala Lumpur

Malaysia's ringgit yesterday became the latest south-east Asian currency to buckle under speculative attack after the country's central bank abandoned support for the currency at a level it has defended for the past two months.

The ringgit fell 1.3 per cent to a 16-month low of M\$2.5500 against the US dollar after the central bank offered only token resistance to waves of selling in early trade, dealers said. The currency slipped below M\$2.5250, the level the bank had defended since a speculative attack on the Thai baht in mid-May.

The assault on Asian currencies which has seen the Thai baht and Philippine peso devalued in the past two weeks continued yesterday as governments struggled to maintain currency values against the dollar in spite of weak exports growth and faltering demand at home.

The Thai central bank intervened to support the baht, saying it had fallen too far at B\$30 its lowest level since its devaluation. It firmed to close at B\$29.90. The Philippine peso touched a four-year low but recovered before closing at 29 to the dollar. The Indonesian rupiah slid to 2,470 to the dollar early yesterday before recovering to close at 2,460.

Last week, Indonesia's central bank widened the rupiah's trading band to 12 per cent from 8 per cent, saving it billions in its fight to uphold the currency.

In Malaysia, treasury economists said it was unlikely the central bank had abandoned a trading band for the ringgit. This was reinforced by the fact that the central bank, Bank Negara, had put a floor under the ringgit's slide at M\$2.5500. In late trading it rebounded slightly to about M\$2.53.

Mr Anwar Ibrahim, Malaysia's acting prime minister and finance minister, said that, following the ringgit's depreciation, it was in a "reasonable range". He reiterated the gov-

ernment's opposition to speculators and said currency trade should reflect what he described as Malaysia's strong economic fundamentals.

Economists say Bank Negara had abandoned its support of the currency at M\$2.5500 after spending up to US\$2bn defending it, with little sign of deterring speculators. Currency observers say the weakening of other regional currencies over recent weeks has enhanced their export competitiveness at Malaysia's expense, leaving Kuala Lumpur little choice but to let the ringgit weaken.

Ringgit allowed to fall, Page 4
Martin Wolf, Page 14

BT faces investors

Continued from Page 1

local telephone business would lose \$800m rather than the planned \$400m this year and more next. BT is looking for the resignations of two top MCI executives and a re-evaluation of company strategy.

Immediately following the AGM, Mr Robert Brace, the BT director in charge of international alliance, will fly to Washington to begin a close examination of MCI's strategy and its problems in breaking into the lucrative US local telephone market.

Mr Brace and Sir Peter Bonfield, BT chief executive, are understood to be taking personal charge of the review. They will be looking for ways in which MCI can gain share in the local telephone markets without necessarily investing an extra \$400m a year.

Questions, meanwhile, are being raised about BT's tactics and its role in the crisis. "They had better be careful about what they are doing to morale in this company," said Mr Barry Sine, a telecoms analyst at SBC Warburg in New York. "They should be rewarding these people for taking risks, not threatening them with the loss of their jobs."

Other US analysts questioned why BT had not realised sooner that MCI's attempts to break into the local market would lead to bigger losses, as it had seats on the company's board.

MCI refused to comment. However, one person close to the company said the BT directors on MCI's board "had a clear advantage point" of all the company's businesses.

Institutional investors in the UK were chiefly concerned about management shortcomings.

The belief is growing, however, that the deal will go through. A fund manager said: "Our belief is that it would be hard for the BT board to go back on its original strategy to buy MCI. The only question that remains is whether and how BT can reduce its offer."

Malaysian group may list owner of 'tallest' buildings

By James Kyngie
in Kuala Lumpur

The company that owns Petronas Twin Towers, the mirror and chrome office blocks in Kuala Lumpur which are claimed by Malaysia as the world's tallest buildings, may come to the country's stock exchange later this year in an initial public offering.

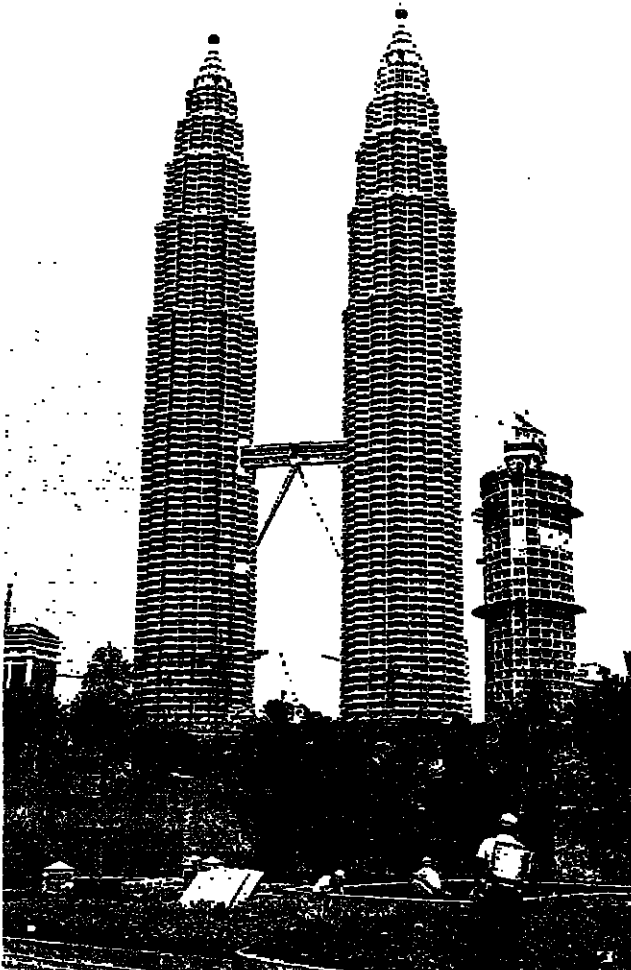
The buildings are 51 per cent owned by Petronas, the national oil company, which sees the IPO as a way to help the M\$2bn (\$500m) project pay for itself. The buildings were due to be completed late last year and, although sections are already being used, the structure is unlikely to be wholly opened until late this year.

Property analysts said delays in the project might have pushed up its costs. However, when the 88-storey towers open, they will rank as the most prestigious and most expensive business address in Malaysia.

At 451.9 metres high the towers are believed to surpass the Sears Tower in Chicago. Detractors say that as the spires on top of the Petronas towers are included in calculations, the aerials on top of the Sears Tower should also be counted, making it taller.

Mr Azizian Zainol Abidin, chairman of KLCG Holdings, the Petronas subsidiary which owns the towers, said his company might be listed on the stock exchange's main board towards the end of the year. He added that it would not be listed under special guidelines for infrastructure companies - a method that allows concerns with no track record to raise equity finance.

The IPO, which has yet to receive approval from relevant authorities, will be lead-managed by RHB-Sakura Merchant Bank, a local bank. The number of shares to be issued and the amount of funds to be raised had not been decided.



Petronas Towers, claimed as the world's tallest buildings

Mr Azizian said.

Malaysia's stock market is 20 per cent down on its highest level of the year. Initial public offerings of other infrastructure projects, notably the Bakun dam, have been postponed because of concerns over fading investor support.

The announcement of the offering came as Petronas, which is not listed, issued results showing a 44.7 per cent rise in group pre-tax profits to M\$12.39bn (\$4.95bn) in the year to March 31. Group turnover

rose 29.8 per cent to M\$28.89bn. Net profit rose by 7.6 per cent to M\$7.3bn.

Mr Mohammad Hassan Marican, chief executive and president, said: "One of the main contributing factors to the higher revenue generated by Petronas was the increase in the crude oil price."

Exports of crude oil, refined petroleum products, natural gas, liquefied natural gas and petrochemicals contributed 67.4 per cent of the turnover, Mr Hassan said.

THE LEX COLUMN

Not DuPed

Has little ICI pulled a fast one on mighty DuPont? The \$3bn (£1.8bn) disposal of Imperial Chemical Industries' polyester and titanium dioxide operations to the US giant raises the question. At 1.2 times historic sales, these businesses have fetched twice their expected price tag, sending ICI's shares up 8 per cent. At first sight, DuPont appears to have overpaid by nearly \$15bn - material even for a group capitalised at \$36bn. Yet its share price hardly budged yesterday.

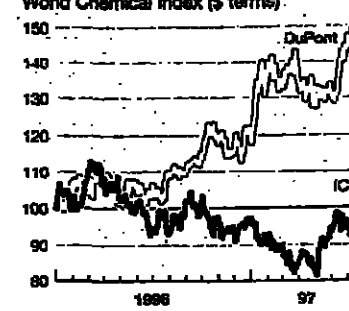
But these businesses are worth more to DuPont than to ICI. The deal consolidates DuPont's leadership in titanium dioxide, giving it a foothold in Europe and a worldwide market share approaching 40 per cent. In polyester, the ICI operations fill gaps in DuPont's product range. The US group also expects to cut combined costs by \$150m-\$300m. After tax and on a price/earnings multiple of 10, those savings could be worth \$900m-\$1.8bn.

If ICI is selling so well and, yet, DuPont is not buying badly, then the fault must lie with the initial valuation of the disposal candidates. Clearly, the financial markets are badly underestimating the prices industrial buyers are willing to pay for strategic assets - whether to boost their own market share, or merely to prevent them falling into the wrong hands. Since the industry's consolidation has a long way to go - ICI itself has \$2bn of turnover left to dispose of - it looks as if poorly-rated basic chemicals businesses still have plenty of value to unlock.

FTSE Eurotrack 200:
2977.5 (+32.4)

ICI/DuPont

Share price relative to the Datascan World Chemical Index (\$ terms)



Source: Datascan/MV

can be very real. Of course, it is only in unusual circumstances like BT's that management teams themselves are likely to volunteer the removal of a neat protective device.

What is needed, therefore, is some institutional pressure. Why, big shareholders might usefully ask themselves, should they not group together and press the remaining protected companies to lobby for the abolition of such an obvious anachronism? With 18 golden shares still remaining, the exercise would certainly be worth the bother. At the very least, the government would be forced to consider whether it really wants these rights. And even if it concluded it did, there is something to be said for all concerned knowing where they really stand.

D-Mark

More than ever, financial markets believe they know Europe's future: since the Socialist election victory in France, the belief has hardened that monetary union will be broadly drawn and loosely construed. Germany, unsurprisingly, is seen as the big loser. It has long been the benchmark for monetary rectitude, but if future European policy will be as much Italian as German, there is little incentive to hold low-yielding German assets in the interim.

The sharp rally in Italian bonds, now yielding only 90 basis points more than German bonds, from over 300 a year ago, confirms the point. But the D-Mark has been the most conspicuous victim: despite supportive moves in long and short term interest rate differentials against the US, it has fallen to a near six-year low against the dollar. It may be that so long as inflation is dormant, and a weak D-Mark helps prop up growth, the Bundesbank will be indifferent to its value. But sustained D-Mark weakness is no certainty: if the dollar pushes through DM1.80, the Bundesbank might well feel the need to defend it through higher interest rates.

Even more plausibly, what if the audit of French public finances shows France missing the Maastricht criteria by a country mile, and doing nothing about it? This scenario would dramatically increase the risks of Ecu being delayed, sending investors scurrying into the D-Mark for safety. Markets most vulnerable to a correction, such as Italy and France, should be treated with caution.

Golden shares

Amid all its other troubles, British Telecommunications is unlikely to encounter much opposition tomorrow when it seeks shareholders' approval to abolish its golden share - something the government has yet to agree to. Of course, the chances of such a behemoth being taken over are remote. But suppose a bid did emerge: the last thing shareholders would want is the UK government having the power to block it in a flag-waving fit.

Nor should the government be keen on such mechanisms, whose main practical effect is to cushion management from the threat of takeover. This is not an academic point. As last year's knee-jerk government decision to prevent a Southern Company bid for National Power showed, the consequences

BT/MCI

The British Telecommunications/MCI merger looks increasingly like a can of worms. The market is clearly expecting BT to extract better terms following MCI's profit warning. The British group also intends to press for two top MCI managers to resign. Maybe its US partner will meekly do what it is told, but things could easily get ugly.

For a start, there is no agreement how bad things really are. On the least threatening reading, MCI is merely stepping up "investment" to crack open the US local market - in which case, this could be merely paradise postponed. The more worrying interpretation is that MCI's prospects have been permanently damaged in both the local and the long-distance market. If so, BT will

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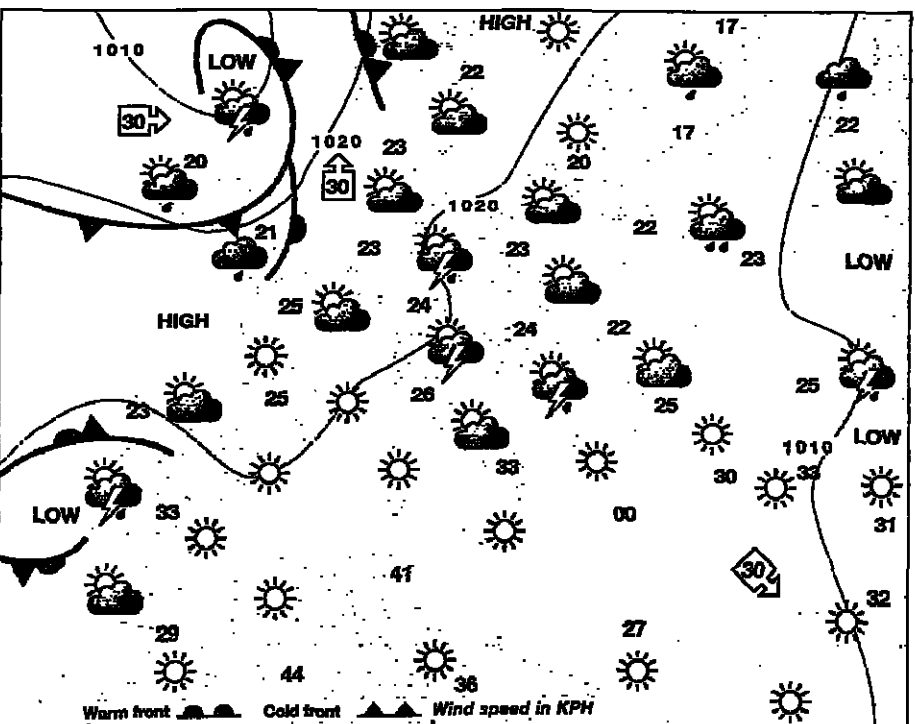
It will be sunny and warm across most of the Mediterranean. Only the northern regions of Italy and Turkey may have thunder showers.

Thunder showers will develop across Portugal and parts of Spain. It will be particularly warm across the interior of Spain.

Most of France, the Benelux and southern Scandinavia will remain dry with sunny periods. The UK will be mostly cloudy with outbreaks of rain or showers. There will be some thunder showers in central Europe and the former Yugoslavia.

Five-day forecast

Most of the continent will remain warm with scattered afternoon thunder showers. Italy will become unsettled with some thunder showers. Elsewhere across the Mediterranean, it will continue to be mostly sunny and warm. Later this week, a high pressure system will build across Ireland and will result in drier and sunnier conditions in the UK.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	
	Celsius	Beifast	show 20
Abu Dhabi	sun 40	Belgrade	cloudy 25
Accra	fair 28	Berlin	
Algeria	fair 35	Bermuda	
Amsterdam	fair 22	Bogota	cloudy 19
Athens	sun 31	Bombay	show 32
Atlanta	thund 33	Brussels	cloudy 23
B. Aires	fair 13	Budapest	
Bham	show 21	C.hagen	cloudy 21
Bangkok	cloudy 36	Cairo	
Barcelona	sun 28	Cape Town	

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Assi to control Russian joint venture

By Greg Mcivor in Stockholm

AssiDomina, the Swedish pulp and paper group, is to take a controlling stake in Segzezhabumprom, the Russian pulp and paper sack company it manages and partly owns through a joint venture with Daventree, a Cyprus-based investment group.

The group is to buy Daventree's 50 per cent holding in Stratton Paper, which is owned jointly by the two groups and which bought a 57 per cent stake in Segzezhabumprom last year.

Assi, which paid \$40m last year

for its 50 per cent stake in Stratton Paper, did not disclose the value of the latest deal.

The transaction means production at Segzezhabumprom - Russia's biggest maker of paper sacks - can resume after a four-month shutdown.

Operations were suspended after bureaucratic difficulties with the local Khabarovsk and Russian central authorities prompted lenders to bank at a planned \$100m loan for plant modernisation.

Assi said yesterday that most of the problems - relating to unsettled tax bills, pension fund pay-

ments and land rights - had been resolved.

But Daventree, controlled by Mr Michael Dingman, the Bahamas-based entrepreneur, and Mr Viktor Kozny, his Czech partner, signalled this month it would not provide capital for the planned start-up.

Assi said the European Bank for Reconstruction and Development and the International Finance Corporation would join it and the local Khabarovsk government, which owns about 30 per cent of Segzezhabumprom, in a new share issue.

"Segzezhabumprom for the first

time will have owners with a mutual and long-term strategic interest," it said.

The deal concludes a chequered recent history between Assi and Daventree, and follows the \$130m purchase by Assi in May of Daventree's 51 per cent stake in Sepap, the Czech pulp and paper company.

In 1995 Daventree won an acrimonious battle with Assi for control of Sepap, although the companies later agreed to bury their differences and work together.

Daventree - formed by the merger of Mr Dingman's Stratton

and Mr Kozny's Harvard Group - was the vehicle for a \$250m incursion into eight Czech quoted companies in 1995, as well as Segzezhabumprom. Daventree has since quit some of these investments by selling to strategic investors.

Segzezhabumprom's European-built machines can produce up to 1.2m heavy duty sacks a year at its plant 550km north of St Petersburg. Last year, though, it produced only 100,000 tonnes.

Assi's main task has been improving productivity. The production rate has been boosted to 160,000 tonnes.

Moody's strips Bank Austria of triple-A rating

By Eric Frey in Vienna

Moody's, the international ratings agency, yesterday downgraded Bank Austria's long-term credit rating, reflecting increasing doubts about the city of Vienna's support for the country's largest bank.

The rating was cut from AAA to AA2, the second-highest ranking, following the city council's decision to sell the 48 per cent it controls in the bank over the next six years. Bank Austria's rating was traditionally supported by an official guarantee for all its assets in case of liquidation.

Bank Austria said it regretted Moody's decision, which will marginally increase borrowing costs on \$120bn (\$9.6bn) of long-term debt but may have a lasting effect on the bank's international reputation.

It said the public guarantee was set by law and would remain even if the stake controlled by the city

was sharply reduced. However, it was pleased with the Moody's positive evaluation of its takeover by Creditanstalt, Austria's second-largest bank. Creditanstalt's credit rating was raised from A1 to AA3.

Moody's also confirmed Bank Austria's financial strength rating of C+, which does not take into account any guarantee.

The move followed a political debate over the Creditanstalt takeover and the public sector influence in Bank Austria, which is close to the Social Democrats. The conservative People's Party, the junior coalition partner of the Social Democrats, resisted Bank Austria's bid for the traditionally conservative Creditanstalt. When the People's Party lost the battle in January, it demanded that the Vienna government cut its stake in Bank Austria, which the city controls through AVZ, a semi-independent foundation.

ITC plays to its strengths

The Indian group is pulling out of several non-core sectors

Diversifications made in the past are giving ITC, India's largest producer of cigarettes, a torrid time.

A disastrous experience in the financial services and paper businesses has led the board to ask Mr Yogesh Chandra Deveshwar, chairman, to prepare a plan that will allow ITC to disengage from several non-tobacco sectors.

The move is backed by BAT Industries, of the UK, which owns 33 per cent of ITC. BAT says it will give "total support to the chairman to restructure what now appears to be an unwieldy basket of businesses".

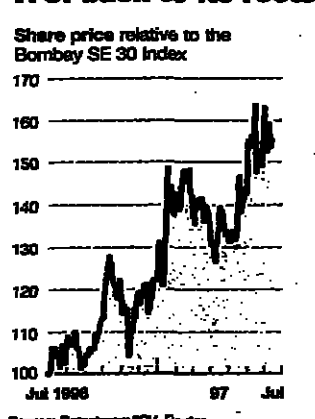
Mr Michael Pridoux, director of public affairs at BAT, says: "BAT is not going to recommend any model for ITC. It is perfectly appropriate for our Indian associate to be in businesses other than tobacco. If the Indian federal government desires that ITC should have some non-tobacco businesses in its portfolio, then it is fine by us. What we are suggesting is that ITC should not be doing anything which it cannot do well."

In the 1980s, ITC, like other big groups in India, sought growth through a host of non-related businesses. The government put pressure on ITC to invest in core areas of the economy such as edible oils and paper, but, as Mr Deveshwar admits, the group did not have the expertise to run these efficiently.

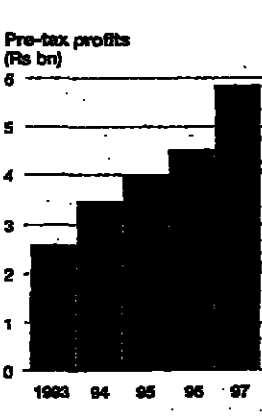
Mr E. L. Chugh, Mr Deveshwar's predecessor who left the company in 1996, had been keen to build a large coal-fired power plant but, according to Mr Pridoux, BAT did not allow it to proceed as ITC knew nothing about the power business.

ITC is ready to sell its 49 per cent of ITC Classic, a

ITC: back to its roots



Source: Dataquest/ICF, Reuters



Source: Dataquest/ICF, Reuters



Yogesh Chandra Deveshwar, chairman

non-banking financial services group, which incurred a loss of Rs2.85bn (\$79.8m) in 1996-97, compared with a profit of Rs313m a year earlier. BAT has made it clear that "ITC Classic is not the right route for it to get into the insurance business in India whenever it is thrown open to the private sector".

ITC has pumped nearly Rs2.65bn into ITC Classic so that it can meet its debt obligations. "Some of our best managers have been deputed to ITC Classic for turning it around," ITC says.

"The cigarette major's exit from the financial services sector will depend on how quickly ITC Classic is put back on the profit stream. ITC wanted GE Capital, which is already in India, as its strategic partner in ITC Classic. But GE Capital cried off after doing due diligence on ITC Classic," said Mr Navin Sachdev, managing director of Freeman Securities, the stockbroker.

In order to improve the working of ITC Classic before a sale, Mr Deveshwar is looking for a "strategic partner who has access to low-cost funds and who is more competent than us to run the financial services business".

It is using the same strat-

egy in its paper business. Last year profits at ITC Bhadrachalam Paperboards, in which ITC owns 30 per cent, fell 59 per cent to Rs187m after an eight-month delay in a new 120,000 tonne capacity packaging board plant, which raised the project cost by 21 per cent to Rs6.32bn.

"We are also looking for a partner who will give us technology to develop our cigarette tissue and specialty paper business," Mr Deveshwar says.

One area which BAT is encouraging ITC to diversify into is hotels. Mr Deveshwar finds BAT highly supportive of his recommendation to invest heavily in building and acquiring hotels in the next few years. Most of the Rs18bn that the group proposes to invest in the next five years will be claimed by the hotel business.

"ITC has proved to its shareholders that hotels is one non-tobacco business where it excels. India accords high priority to tourism, which ITC should exploit," says Mr Pridoux.

The company says the contribution of hotel business to group profits will rise from 17 per cent to nearly 50 per

cent within 10 years. This will help offset ITC's edible oils business, which it entered at the prompting of the federal government which wanted the country to be less dependent on imports. But the venture has cost the company dearly and it is negotiating the sale of the business to Conagra Foods, of the US.

Analysts believe that ITC should be able to complete the restructuring in a couple of years, as again BAT supports the initiative.

There is, however, a sense of victory at ITC that BAT finally gave it the licence to produce 555 State Express and Benson & Hedges cigarettes at its new factory in Bangalore.

"BAT wants to get its international brands out there well ahead of our competitors. R.J. Reynolds and Philip Morris. What clinched the issue for ITC is its strong distribution network," Mr Pridoux says.

The brand licensing agreement, says BAT, is a "watershed" in our relationship with ITC. The only thing that we are after is to have influence in the company commensurate with our 33 per cent ownership."

Kunal Bose

INTERNATIONAL NEWS DIGEST

Third cellular tender for Israel

Israel will today issue the tender for a third cellular telephone operator, which has already attracted 200 local and foreign companies. The move is aimed at improving service and lowering rates in an already competitive market. It coincides with a decision by the government to decrease its stake in Bezeq, the state-owned telecommunications company.

Israel's mobile phone market has grown from less than 100,000 customers in January 1995 to about 1.5m this year. The country has a population of 5.7m. Mrs Limor Livnat, communications minister, said Israeli cellphone users led the world in the number of call minutes per customer. The ministry said the cellular market was worth an estimated \$28m a year. The market is currently controlled by Pelephone, a joint venture between Bezeq and Motorola, of the US, and Cellocom, which includes BellSouth, of the US.

The new operator will be allocated GSM frequencies, allowing access to the network from outside Israel, which the two existing companies cannot provide. Israel's communications ministry also said several leading international telecoms companies, including British Telecommunications, AT&T, of the US and Ericsson, of Sweden, were interested in the tender. The deadline for bids is October 28.

MEDICAL EQUIPMENT

Sulzer Medica shares up on debut

Shares in Sulzer Medica, the medical equipment operation of Swiss engineering group Sulzer, closed their debut day of trading at Sfr408, well ahead of the Sfr350 issue price but down on the opening price of Sfr440.

The initial public offering, which closed last week 25 times oversubscribed, involved 2.3m new shares, or about 24 per cent of the company, and raised about Sfr800m (\$548m) before costs. The company said recently the money would be used for acquisitions. It is seeking a New York listing for its newly-issued shares.

World Stocks, Page 40 Mark Mulligan

BANKING

Vontobel up 48% at interim stage

Vontobel, the Swiss banking group, said yesterday it was on course for an "above average" full-year result after reporting a 48 per cent rise in net income for the six months to June. The profit rise, from Sfr35.1m to Sfr52.1m (\$35.7m), came from operating results of Sfr103.6m compared with Sfr73.3m last time. The group said all main earnings components showed double-digit growth, with net commission ahead 31 per cent to Sfr123.1m. Trading income was also up strongly, at Sfr45.6m against Sfr38.4m. Of this, securities trading contributed Sfr38.4m and foreign exchange and metals dealing, Sfr7.2m.

Mark Mulligan

MOROCCO

Epargne Croissance to delist

Morocco's portfolio company Societe Epargne Croissance said yesterday it would be delisted from the Casablanca stock exchange on August 6 because its shares were not being traded enough. The company said: "We asked the bourse watchdog to delist us because with only 1 per cent of our capital listed, it was not regularly traded."

Al-Amame insurance holds 99 per cent of the company, which last traded in May.

The bourse regulatory body, Conseil Deontologique des Valeurs Mobilières, which was set up in 1984 to regulate trade on the stock exchange, has delisted 18 companies since then. There are 48 companies listed on the Casablanca bourse.

Reuters, Rabat

HUNGARY

GEC-Alsthom unit in turbine deal

European Gas Turbines, a subsidiary of the Anglo-French GEC-Alsthom group, has signed a \$60m contract to provide two quick-start 110MW gas turbine power units to MVM, the Hungarian state electricity company. EGT has undertaken to provide the turbines, alternators, transformers and a 10-year maintenance programme in the project, which is financed by a \$60m World Bank loan. The loan, guaranteed by the Hungarian government, is of 15 years. The World Bank-supervised tender attracted nine bidders, including ABB, Siemens, Elin and Ansaldo.

Kester Eddy, Budapest

IRAN LIBYA SANCTIONS ACT

WestLB stands by Iran loan

WestLB, the German bank, yesterday refused to withdraw a loan to Iran's Offshore Engineering and Construction Company in spite of being warned by a US senator that the deal would violate US law. The bank said it was not breaching any laws because trade finance deals were not covered by the 1996 Iran Libya Sanctions Act. "We are acting fully in line with the law," the bank said. WestLB belongs to a bank consortium that has lent the state-owned Iranian company \$80m. WestLB's share of the loan is \$40m. The loan will be used to finance the supply of machinery and technical equipment by German, French and Belgian exporters to develop the Souroukh oil field, WestLB said.

Reuters, Düsseldorf

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(the "Company")
US\$45,000,000

4 per cent Bonds due 2001 (the "Bonds")

NOTICE IS HEREBY GIVEN pursuant to Condition 7(b) of the Terms and Conditions of the Bonds that the Company believes that all necessary notice has been given and has determined to redeem on 31 July 1997 (the "Redemption Date") all outstanding Bonds at the price of 100% of the principal amount of the Bonds together with the interest accrued to the Redemption Date.

Set out below is the relevant information.
Applicable 20 consecutive Trading Days: From and including 27 January 1997 to and including 26 February 1997.
Current Conversion Price: NT\$14 per share.
The Closing Price of the Bonds as shown on the Taiwan Stock Exchange on 26 February 1997: NT\$38 per share.
Aggregate principal amount of the Bonds outstanding as at 26 February 1997: US\$3,020,000.
We would like to call your attention that, pursuant to Condition 5(A)(ii), the Bonds can not be converted after the close of business on 20 July 1997.

ACER INCORPORATED
By: CITIBANK, N.A.
as Principal Paying Agent
15 July 1997

CITIBANK

FIDELITY FAR EAST FUND

Société d'Investissement à Capital Variable
Kansallis House, Place de l'Étoile
B.P. 2174 - L-1021 Luxembourg
R.C. B 16926

DIVIDEND NOTICE

At the Annual General Meeting held on July 14, 1997, it was decided to pay a dividend of USD 0.07 (7 cents) per share on or after July 23, 1997 to shareholders of record on July 1, 1997 and to holders of bearer shares upon presentation of coupon n° 18.

Paying Agent: KREDEITBANK S.A. LUXEMBOURG
43, Boulevard Royal
L-2449 Luxembourg

Fidelity Investments

METRO AG

METRO FINANCE B.V.

Can\$ 100,000,000 Collared Floating Rate Notes 1993/2003
(Issued under the DM 2 billion Multi-Currency Euro Medium Term Note Programme of METRO AG) Tranche No. 1.1

The Rate of Interest applicable to the Interest Period from July 15, 1997 to October 14, 1997 inclusively, was determined to be 6.5 per cent per annum. Therefore, on October 15, 1997 interest per Note of Can\$ 1,000 principal amount in the amount of Can\$ 65.00 and interest per Note of Can\$ 10,000 principal amount in the amount of Can\$ 650.00 is due.

Frankfurt am Main, July 1997
Dresdner Kleinwort Benson
Dresdner Bank Aktiengesellschaft
Calculation and Principal Paying Agent

Banco de la Provincia de Buenos Aires

US\$46,700,000 Par
Floating rate notes due 2009
US\$42,150,000 Discount
Floating rate notes due 2003

For the period 15 July 1997 to 15 January 1998 the notes will bear interest as follows:

Par Notes 4.035% per annum.
Interest payable on 15 January 1998 will amount to:

US\$103.12 per US\$1,000 note
US\$206.23 per US\$10,000 note
US\$2,062.33 per US\$100,000 note.

Discount Notes 6.725% per annum. Interest payable on 15 January 1998 will amount to:

US\$171.86 per US\$1,000 note
US\$343.72 per US\$10,000 note
US\$3,437.22 per US\$100,000 note.

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Stet plans to undercut Telefónica

By Tom Burns in Madrid

Stet, the Italian telecoms carrier which will operate Retevisión, Spain's second operator, plans to break Telefónica's monopoly with aggressively priced services that will be available to clients in the main cities after the summer.

In a rapid follow-up to its award of Retevisión's licence last week, the consortium led by Stet and Endesa, Spain's biggest electricity group, said yesterday that its charges for domestic long-distance and international calls would be 15-30 per cent lower than those of

Telefónica, the former monopoly operator.

Initial services will start as soon as Retevisión completes negotiations on the price it will have to pay Telefónica for the use of its lines.

Under government guidelines, these interconnection fees have been fixed in a low price range to give Retevisión a competitive edge. The final fees have to be agreed within two months.

Retevisión, however, plans to provide services using its own digital network to Spain's 12 biggest cities by December, and to a further 50 large domestic urban centres by August next year. The new operator will spend

more than Pta100bn (\$670m) over the next two years to develop its network.

The ambitious start-up strategy indicates that Retevisión's new owners intend to build up business as fast as possible ahead of full deregulation of Spanish telephone services in December next year. It aims to achieve an operating profit by 2000 and to operate 1m lines by 2007, earning revenues of Pta280bn.

Retevisión's assault on Telefónica's domain will be helped by the back-up of Endesa, which has a 21.7 per cent stake in the operator - the same stake as Stet - and by Unión Fenosa, Spain's

third ranked electricity generator and distributor, which has an 8.6 per cent stake.

Between them, the two power groups have some 12m domestic clients and provide a nationwide optic fibre network to the new operator. Telefónica, however, will be a tough competitor. The telecoms group, which was fully privatised in February and subsequently allied itself to the Concert venture being formed by British Telecommunications and MCI, of the US, operated 16m lines in Spain last year and reported an operating profit of Pta575.9bn.

The Commonwealth of Virginia

on Monday, September 8

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COS AND FINANCE: ASIA-PACIFIC

Two Thai banks lift bad debt provisions

By Ted Bardeack
in Bangkok

Two mid-size Thai banks yesterday accompanied reports of moderate profit growth for the first half of this year with large increases in provisions for doubtful and bad debts.

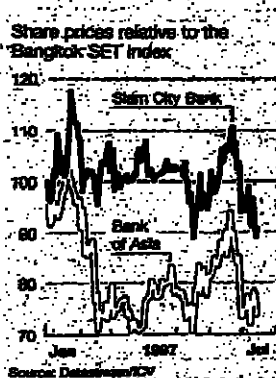
Siam City Bank said its first-half net profit was Bt1.82bn (\$35.3m), up 5.8 per cent on the same period last year.

It said provisioning for bad and doubtful debts for the first half of the year was Bt770m, up 152 per cent.

Bank of Asia reported first-half net profit 4.9 per cent higher at Bt946.5m. It said provisioning for bad and doubtful debts was Bt250m, up from Bt150m a year earlier.

Analysts said that the results revealed little about the banks' future performance because they cover the period leading up to the de facto devaluation of the Thai baht.

Thai banks



"These results are unimportant. It's a different country now," said a banking analyst with a European brokerage house. "The next quarter is the key for setting the standard to come."

Analysts are expecting loan and deposit growth to fall sharply in the third quarter. With loans growth the main driver behind bank earnings, net profit should fall substantially as well.

The fall in deposits is already causing concern about the liquidity at some small and mid-size banks.

The Thai Bankers Association yesterday denied that five commercial banks would be shut down by the central bank. The statement followed a similar denial last Friday by the Thai central bank.

Analysts also said that non-performing loans would rise this year, as the fall in the value of the baht and subsequent rise in interest rates meant manufacturers would begin to fall behind on their loan payments, similar to the way property developers did last year.

Loans to the manufacturing sector account for between 30 and 40 per cent of all Thai bank loans, compared with about 10 per cent to the property sector.

"The [bad loan problem in the] manufacturing sector will make the property sector look pale by comparison," one analyst said.

Ekran plans disposal of subsidiary to raise cash

By James Kynge
in Kuala Lumpur

Ekran, the Malaysian infrastructure company overseeing the construction of the troubled M31.8bn (US\$3.2bn) Bakun dam, plans to sell a subsidiary to raise much-needed cash.

The move comes after Ekran's disastrous rights issue, which had been expected to raise M\$1.46bn but was undersubscribed by 62.7 per cent.

The issue's failure signalled investor unease with the Bakun project, which involves building a 2,400MW hydro-electric dam in the Malaysian Borneo jungle. Asea Brown Boveri, the Swiss-based engineering firm, is the lead contractor.

Ekran said its controlling 38 per cent stake in Wem-

bly Industries, a listed infrastructure company also scheduled to be involved in the Bakun project, would be sold for M\$229m. It named the buyer as Mr Tiong King Sing.

Observers said the proceeds were unlikely to cover Ekran's planned acquisition of a 32 per cent stake in Bakun Hydroelectric Corp, which is expected to be valued at about M\$30m after an initial public offering scheduled for next month.

Mr Ting Pek Khing, executive chairman of Ekran, had hoped to use M\$800m of the money raised from the rights issue to help buy the Bakun stake. But after the failure of the issue, he was forced to pay M\$359m for the unwanted shares.

Analysts believe, more of Mr Ting's business empire

might be put up for sale. He also controls Pacific Chemical, a timber products company. PWE Industries, an engineering group, and Granite Industries, a property and timber concern.

The three listed companies have been awarded contracts related to the Bakun project. The dam has been named as a national project by Dr Mahathir Mohamad, Malaysia's prime minister.

Dr Mahathir regards the project as essential for the development of Sarawak, a relatively underdeveloped state in Borneo. However, other members of the government, including Mr Anwar Ibrahim, the acting prime minister while Dr Mahathir is on a working holiday overseas, have expressed opposition to the dam.

ASIA-PACIFIC NEWS DIGEST

Hyundai in rights issue to cut debt

Hyundai, South Korea's biggest conglomerate, said it was planning to raise Wn3,000bn (\$1.99bn) in new capital through rights issue offerings and property sales to reduce its debt burden of nearly five times equity. Hyundai has the largest debt burden of the country's five top conglomerates - or *chaebol* - because of an expansion of its semiconductor and car businesses. Hyundai is Korea's largest car producer and its second biggest manufacturer of memory chips.

However, Hyundai's capability to service its debts has been hampered by a downturn in global demand for semiconductors and sluggish domestic car sales. Under its financial restructuring plan, the group plans to raise Wn3,000bn through rights issues this year and another Wn3,000bn by selling property assets.

The government has proposed that the *chaebol* reduce their debt burdens to avoid further bankruptcies such as those of the Hanbo and Sammi steel groups this year.

John Burton, Seoul

JAPANESE SECURITIES

Dai-ichi to liquidate unit

Dai-ichi Securities, one of Japan's second-tier brokers, said yesterday it would liquidate Dai-ichi (Switzerland), its Swiss unit, as part of a plan to restructure its European operations. Japanese securities companies have been quitting or downsizing their overseas operations before the government's "Big bang" financial deregulation. Reforms over the next three years are expected to intensify competition in the country's financial sector and have already prompted foreign financial institutions to set up or expand operations in Japan. Medium-sized brokers such as Dai-ichi are most likely to be affected by the increased competition, and are hastening to consolidate unprofitable operations.

Dai-ichi (Switzerland) was established in 1985 to focus on trading Japanese equities for European investors, but has turned in a poor business performance. Its closure would cause Dai-ichi Securities to suffer an extraordinary loss of Y990m (\$5.1m) in the year to March 1996, the company said. Last year Dai-ichi Securities incurred a parent recurring loss for the seventh consecutive year. For the current business year, however, the broker has not changed its forecast for parent after-tax profit of Y600m, as it is expecting gains in unrealised profits on its stock portfolio following the rise in the Japanese stock market.

Gwen Robinson, Tokyo

FUND MANAGEMENT

DMGA plans Sydney transfer

Deutsche Morgan Grenfell Australia, the local investment banking arm of Deutsche Bank of Germany, will transfer Australian-dollar fund management and marketing operations from London and Singapore to Sydney. The move is part of DMG's May acquisition of Axion Funds Management from the New South Wales state government. DMG would also add 500 jobs across its Australian investment banking operations by 2001, said Mr John Barnes, managing director. The expansion, fuelled by the expected growth of Australia's A\$250bn pension fund industry, would include positions in trading, investor services, research and information technology, he said.

Axion has A\$19bn (US\$9.8bn) in funds under management. Deutsche Bank's Australian operations recorded after-tax profits of A\$46m last year, up from A\$44m the year before.

AP-DJ, Sydney

ODEBRECHT

Social Statement

1996 HIGHLIGHTS

Performance results from the quality and productivity of the Odebrecht Group's Members, who thereby fulfill their Social Responsibility.

Economic Wealth Generated

(US\$M)

Payment of Third Parties (Suppliers and Contractors)	3,246
Compensation for Work (Odebrecht Members)	628
Government Revenue (Taxes, Tariffs and Contributions)	465
Return on Equity (Shareholders)	79

Investments

(US\$M)

Investment commitments	
1996	23
1991	39
1995	499

Commitments to Global Standards of Competitiveness

Odebrecht is a confederation of Entrepreneur-Partners who work in a variety of businesses in numerous parts of the globe, with world-class vision, alliances and standards of competitiveness.



Engineering & Construction:
present in 21 countries

Africa:
Angola
Botswana
Mozambique
South Africa

Americas:
Argentina
Bolivia
Brazil
Chile
Colombia
Ecuador
Mexico
Peru

United States
Uruguay
Venezuela

Europe:
Germany
Portugal
Spain
United Kingdom

Asia:
Malaysia
Singapore

Chemicals & Petrochemicals:
products exported to 42 countries

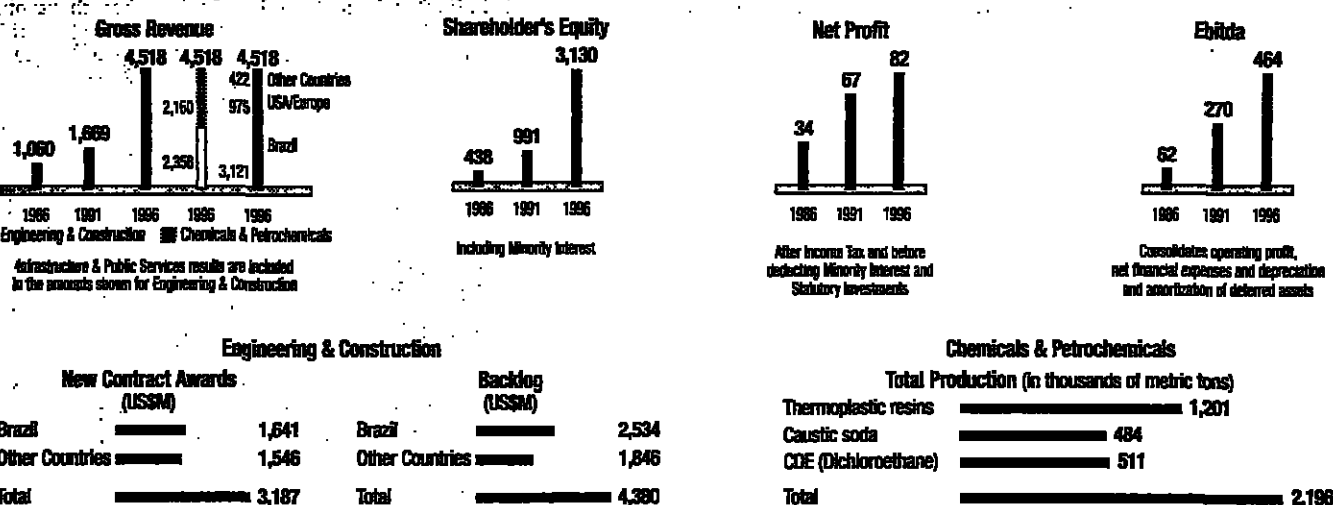
In each of their businesses, Odebrecht Members boost their core competence - the multiple delegation of responsibility for entrepreneurship - and acquire new competencies to achieve an outstanding degree of competitiveness.

Corporate Structure: Odebrecht S.A. (holding company) plus 125 subsidiaries and affiliates, including:

Engineering & Construction	Chemicals & Petrochemicals	Infrastructure & Public Services	Pulpwood Forestry	Insurance & Surety	OCS - Odebrecht Administradora e Corretora de Seguros Ltda.
• CNO - Construtora Norberto Odebrecht S.A.	• Companhia Brasileira de Projetos e Obras - CBPO	• Sanitation	• Venacruz Florestal Ltda.	• Pension Fund	• Odepre - Odebrecht Previdência
• Tenango S.A.	• Bento Pedroso Construções S.A. - BPC (Portugal)	• Transportation		• Foundation	• Odebrecht Foundation
• SLP Engineering Ltd. (UK)		• Energy			
		• Telecommunications			
		• Seler Telecom Ltda.			

Odebrecht constantly increases its competitiveness by simultaneously improving productivity and quality to ensure excellent performance, and by entering new competitive areas in the vanguard.

Indicators (in US\$M, with full inflation accounting)



Engineering & Construction	Chemicals & Petrochemicals
New Contract Awards (US\$M)	Total Production (in thousands of metric tons)
Brazil 1,641	Thermoplastic resins 1,201
Other Countries 1,546	Caustic soda 484
Total 3,187	CDE (Dichloroethane) 511
Backlog (US\$M)	Total 2,186
Brazil 2,534	
Other Countries 1,846	
Total 4,380	

Quality, Productivity and Innovation

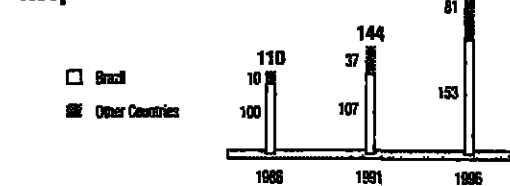
- Trikem's and CNO's application of expanded PVC plates in concrete formwork slashed costs 37% by reusing forms up to 50 times
- BPC's use of the floating crane *Rainbow* to hoist beams on the River Tagus, lowering construction costs for the Vasco da Gama Bridge project in Lisbon, Portugal
- OPP's development of a new polyolefin resin used to make tougher plastic bags
- Trikem's development of a bulk delivery system for its PVC resins, lowering costs for the company and its Clients
- Certification of all OPP manufacturing plants by the ISO 14001 Standard
- Renewal of ISO 9000 certification for Trikem, Tenango, and OPP

Partnership

By applying the Odebrecht Entrepreneurial Technology, the Group's Entrepreneur-Partners participate in the planning and execution of their work, and produce and share the results.

Total Number of Partners	39,631
Brazil	28,631
Other Countries	11,000
Engineering & Construction	31,241
Chemicals & Petrochemicals	7,563
Other	827

Number of Entrepreneur-Partners Responsible for Business Units



Education

The Group's growth is a direct result of its Members' progress, which occurs essentially through work and is supplemented by knowledge obtained through partnerships with educational and research centers (Education for Work).

On-the-Job Education

Trainee and Internship Programs

Participants in 1996 461 young people
Joined the Group in 1996 149 young people

Education for Work

Partnerships with over 50 educational and research centers in nine countries including Brazil with the following goals:

- Educating Partners and Upgrading their Knowledge
- Making Technical and Scientific Innovations
- Promoting Education, Culture and Better Schools
- Scholarships and Grants for College Students

Additional Commitment to Education and Culture for the Community

Culture

- Publication of the book *Graminha - A Alma do Saneiro* by Lev Smanovski
- Development and publication of the complete authorized works of Jorge Amado in partnership with Editora Record
- Launching of the book *Moradia da Silva, o Último dos Melandres* by Alexandre Augusto Teixeira Gonçalves in partnership with Editora Record



Odebrecht Foundation

- Support for 11 projects in partnership with 18 institutions, helping educate 40,000 adolescents and train 4,300 educators
- Conclusion of the educational process carried out through the Odebrecht/UNICEF Awards. Theme: *Years for Better Schools*
- Honors:
 - ECD Award from American Chamber of Commerce in Brazil
 - Pacem in Terris Award from La Roche College, USA

http://www.odebrecht.com.br

COMPANIES AND FINANCE: THE AMERICAS

HP, AT&T in electronic commerce pact

By Louise Kehoe
in San Francisco

Hewlett-Packard and AT&T are to collaborate in the development and marketing of technologies and services that make it easier for businesses to build electronic storefronts on the Internet, the companies announced yesterday.

The alliance between the second-largest US computer company and the leading telecommunications group

reflects the trend toward transforming web sites into online storefronts, where visitors can not only read about products but also purchase them.

Electronic commerce is expected to be worth nearly \$200bn by 2000, with business-to-business shopping accounting for about one-third of the total, according to Forrester Research, a computer industry analysis group.

Until recently, companies

planning to set up electronic storefronts were forced to select from a confusing array of software to implement functions such as payment systems, order processing systems and web site design software.

HP and AT&T plan to bring all of these elements together while providing businesses with the option of managing some of the functions of an electronic commerce web site in-house.

An electronic merchant

might, for example, design, host and control its own web site but outsource the complex "back office" functions to process secure credit-card transactions to AT&T.

The telecom group will provide networking and secure-purchasing capabilities, while HP will provide computer equipment and software.

HP's third-party resellers will offer AT&T's "SecureBuy" services, which provide the technical infrastructure

and management needed to conduct secure transactions over the web.

The two companies also plan to develop jointly technologies to improve the performance and reliability of electronic commerce.

In a similar partnership, also announced yesterday, Open Market, a leading supplier of Internet commerce software, has linked with ANS Communications, a subsidiary of America Online.

ANS will provide web hosting services for companies wanting to set up and control their own electronic storefronts but not worry about the Internet commerce infrastructure.

"This represents a growing trend among service providers to take the cost and complexity out of Internet commerce," said Ms Gail Goodman, vice-president and general manager of Open Market's Internet commerce division.

AMERICAS NEWS DIGEST

Raytheon to sell units for \$750m

Raytheon, the US aerospace and engineering group, is selling three of the five business segments, and certain receivables, of its Appliance Group unit for a total of \$750m, as part of moves to sharpen its strategic focus. It said it was selling the unit's home appliance, heating and air conditioning, and commercial cooking segments to Houston-based Goodman Holding for \$550m in cash.

The Appliance Group will also sell receivables to an undisclosed party for \$200m. Raytheon said it would retain Appliance Group's commercial laundry and electronic controls segments. The company said the two segments combined accounted for 20 per cent of Appliance Group's revenues and 50 per cent of its earnings in 1996. Raytheon said it was continuing its strategic assessment of the two businesses.

The company said the proposed sale, which it expected to complete in its third quarter, was subject to government approval.

AP-DI, Lexington

MEDIA

Gannett surges in quarter

Gannett, the US media group, said yesterday that its newspaper businesses posted record operating profits for the second quarter. Operating cash flow from newspapers jumped 25 per cent, quarter-on-quarter, to \$305m, boosted by strong advertising demand, a 26 per cent reduction in newspaper expenses, strong performance at its USA Today newspaper, and a favourable comparison at The Detroit News, Gannett said.

The company said broadcasting cash flow grew 18 per cent, quarter-on-quarter, to \$111.7m, on revenues of \$189.2m, a 7 per cent jump. It also said it expected to complete the acquisition of Army Times Publishing in the third quarter.

Gannett made the comments on the release of second-quarter earnings, which totalled \$194.7m, or \$1.35 a share, against \$180m, or \$1.07, in the same period last year. The First Call consensus of estimates for the quarter was earnings of \$1.35 a share.

Reuters, Arlington

TELECOMS

Telcel to invest \$160m

Telcel, the Venezuelan cellular telephone company, is launching a six-month, \$160m investment plan to expand significantly its service throughout the country in response to unexpectedly large demand. It said it would double its capacity to process domestic calls and increase its coverage, making its service available to 90 per cent of the population by the end of the year.

Telcel and its competitor Movilnet, a subsidiary of the telecommunications company CANTV, have experienced bottlenecks in their ability to process calls in recent months, leading to complaints by customers.

The number of cellular phone users in Venezuela has rocketed in recent months as the country comes out of a six-year recession. According to Conatel, the regulatory agency, the number of cellular phone users has increased from 450,000 in 1995 to just over 800,000 currently. Venezuela has one of the highest cellular phone market penetrations in Latin America.

Telcel, part of the Cisneros Group of Companies, a media and consumer products conglomerate, has more than half of the Venezuelan cellular market.

Raymond Colist, Caracas

ENERGY

Enron Oil declines

Enron Oil & Gas, the US energy group, said its second-quarter net income, discretionary cash flow and net operating revenues were lower than in the same period in 1996 primarily due to lower gains and proceeds from property sales and other marketing net income.

The group, which is majority owned by Enron Corp, reported second-quarter net income of \$24.5m, or 16 cents a share, against \$47.2m, or 30 cents, in the year-ago period. Discretionary cash flow was \$128.5m in the quarter, down from \$173.5m in the year-ago quarter.

Enron Oil said it was on schedule to meet its 1997 targeted volume growth. "We are very pleased with the results of our programme in North America during the first half of this year and excited about our prospects as we enter the second half," said Mr Forrest Hoglund, chairman and chief executive. The company said total North America equivalent production increased more than 9 per cent in the first half of the year compared with a year ago.

Reuters, Houston

ENVIRONMENT

New Waste Management chief

Waste Management, the US-based waste disposal group, has chosen Mr Ronald LeMay, currently president and chief operating officer at Sprint, the US telecoms group, as its chairman and chief executive. He will replace Mr Dean Buntrock in both posts.

Sprint said Mr William Kerey, 57, Sprint chairman and chief executive officer, would assume responsibility for both the chief executive and chief operating officer positions following Mr LeMay's departure.

Mr Buntrock, who is 66, first retired as chief executive of Waste Management in June 1996, but re-assumed the position in February after Mr Philip Rooney resigned as president and chief executive following pressure from dissatisfied investors, including Mr George Soros, the international financier.

Agencies, Chicago

Into Latin America on a Mexican wave

Bank of Nova Scotia is one of the most active in the region

Bank of Nova Scotia planned to walk away from its investment in Inverlat when the peso crisis hit in late 1994.

Instead, the Mexican authorities persuaded Canada's most geographically diverse bank to help stabilise the troubled Mexican financial services group through an injection of equity and the secondment of some of Scotiabank's most skilled credit specialists.

Inverlat not only gained a new lease on life, but Scotiabank's decision to stay in Mexico was an important springboard for a thrust throughout Latin America. It is already the biggest foreign bank in the Caribbean and has become one of the most active in Central and South America.

"There are only two or three more [deals] and we'll have a pan-South American bank," says Mr Peter Godsoe, Scotiabank chairman and chief executive. "It may look like chaos from the outside, but we're relatively comfortable that we can knit them together."

The Canadian group has focused in Latin America on mid-sized institutions with a bias towards retail banking. Its investments include:

- A 16 per cent stake in Inverlat, with an option for a further 39 per cent in March 2000. Banco Inverlat is Mexico's fourth-biggest bank with 312 branches. The group also has investment banking, leasing and factoring operations.

- 80 per cent of Costa Rica's Banco Mercantil, with assets valued at C\$60m (US\$43.8m).

- A 28 per cent interest in Banco Sudamericano, Chile's ninth-ranked bank

with assets of US\$2.3bn.

- 25 per cent of Banco Sudamericano, a Peruvian bank with assets of US\$270m.

Earlier this month, Scotiabank agreed to pay C\$360m to boost its stake in Argentina's Banco Quilmes from 25 per cent to 100 per cent. Quilmes has assets of US\$1.5bn and 86 branches.

Thanks partly to connections with influential overseas Chinese families, Scotiabank is also building a sizeable presence in east Asia. It owns 40 per cent of Solidbank, a profitable, 100-branch operation in the Philippines.

The group has investments in Thailand and Malaysia, and is negotiating a joint venture in Indonesia. An expansion in India is set to be revealed within the next few weeks.

Elsewhere, the bank has expanded in Greece, where it has seven branches, to strengthen its global shipping and tourism business.

Scotiabank has thrown substantial management and technology resources behind its overseas affiliates.

About 20 executives, with more to follow, have been seconded to Inverlat to help stabilise its loan portfolio and train local employees in credit appraisal and retail banking. Inverlat recently launched a new-car loan designed by Scotiabank.

International banking – including retail and commercial services, as well as trade finance – produced net income of C\$236m in the fiscal year to October 1996, equal to 22 per cent of Scotiabank's total earnings. The bank, Canada's fourth biggest, has assets of C\$176bn.

Caribbean operations are especially profitable. "Considering the size of the market, they really do quite well," says one former employee.

The bank and its affiliates employ about 17,000 Spanish-speaking people, equal to

about half Scotiabank's own payroll. Mr Godsoe says the South American business has the potential to surpass the bank's Canadian operations.

But Scotiabank faces a number of hurdles before that dream is realised. Returns from most of the South American investments have so far been less than stellar.

One reason is the substantial investment required to train local staff, streamline procedures and, in some cases, improve the quality of loan portfolios.

Scotiabank took a C\$145m write-down in late 1995 on a former 8 per cent stake in Inverlat. According to Mr Godsoe, "It wasn't the peso devaluation that cost us. It was the fact that the bank wasn't well run." Recent currency turmoil in Thailand and the Philippines is also like to hit the bank's exposure to those countries.

Scotiabank is challenged by intensifying competition in many new markets as local financial institutions consolidate, and other powerful foreign banks – notably Citibank, HSBC and Spanish banks – move in.

For instance, the speed of bank consolidation in Chile has caught Scotiabank by surprise. Its local affiliate, Banco Sudamericano, has so far been left on the sidelines by a tide of mergers and acquisitions. But Scotiabank has some strengths of its own. Its expertise in Canada is well regarded, especially in the retail market. The bank has bid C\$1.3bn for National Trust, a medium-sized group specialising in mortgages and fiduciary services.

Long experience outside North America and Canada's increasingly diverse population have given Scotiabank a strong international culture.

Vietnamese immigrants on the bank's payroll in Toronto volunteered to help



Peter Godsoe: 'relatively comfortable' about knitting the apparent chaos together

set up its office in Hanoi. The executive vice-president for finance is a Sikh, and the head of the operations division is Lebanese.

Mr Godsoe justifies the drive into emerging markets on the grounds of long-term growth prospects for

banking services. Besides a vast, untapped pool of consumers hitherto mistrustful of banks, these markets are less vulnerable to "disintermediation" by non-bank financial services, such as mutual funds.

Mr Godsoe sees a bright future as cross-border takeovers and mergers become the order of the day. "You've got five to 10 years of attracting people into the banking system who aren't part of it," he predicts.

Bernard Simon

NationsBank ahead of expectations for quarter

By Richard Waters
in New York

NationsBank topped Wall Street expectations with a 26 per cent increase in after-tax earnings for the second quarter, to \$782m, leading a group of big US banks that reported solid earnings.

Earnings per share at the South Carolina-based bank rose only 5 per cent to \$1.05, however, reflecting the extra shares issued in the past year to pay for its acquisition of Boatmen's Bancshares. The dilution from that acquisition also led to a decline in NationsBank's

return on equity, to 15.25 per cent from 18 per cent.

In recent weeks, the bank has raised eyebrows with its planned \$1.2bn acquisition of Montgomery Securities, a price that is considerably higher than that paid in similar deals by other banks. However, the financial effects of the Montgomery deal have generally been disregarded by US bank analysts as being too small to cause any serious concern.

The stock market had been expecting earnings of around \$1.1 a share, and pushed NationsBank's stock up 1 1/4, to 87 1/4. Among

other bank shares to rally on earnings news, First Chicago NBD's stock climbed 1 1/4 to 84 1/4. The Midwest's biggest bank reported earnings of \$1.30 a share, up from \$1.09 a year before.

NationsBank's advance reflected a 26 per cent rise in net interest income, to \$2bn, and a 27 per cent increase in non-interest income for the quarter, to nearly \$1.2bn. The company said its efficiency ratio – the ratio of non-interest expenses to total revenue – fell in the latest period to 53 per cent, against 54.3 per cent a year ago.

Gas Natural successful in R\$622m Brazilian auction

By Geoff Dyer in São Paulo

A consortium led by Gas Natural, the dominant gas distributor in Spain, won an auction yesterday to buy the two gas companies owned by the Brazilian state of Rio de Janeiro, for R\$622.2m (US\$576m).

The sale of Companhia Estadual de Gás (CEG) and Riogás, both gas distributors, represents the first privatisation of state-owned gas companies in Brazil and underlines the gathering pace of the country's privatisation programme.

The winning consortium

also included Iberdrola, Spain's second largest electricity company. Gas Natural's largest shareholder is Repsol, the Spanish oil and chemicals group.

A total of six consortia, grouping 29 companies, took part in the auction. Bidders had to put in offers for both companies, with the winner being the highest combined bid.

The auction, at the Rio de Janeiro stock exchange, was delayed after a judge awarded an injunction suspending the sale resulting from a legal action taken by a Communist party state

deputy. But the state government succeeded in overturning the injunction yesterday morning.

CEG is responsible for the supply of gas for the Rio de Janeiro metropolitan region. It has 559,000 customers and distributes 1.7m cubic metres of gas a day. The company hopes it will make its first profit of the decade this year.

Riogás was created last year as a partnership between the Rio government and Petrobras, the federally-owned oil and gas company, to supply gas to industrial customers in the state.

US long-distance telecommunications groups are finding it difficult to break into new markets

Baby Bells cling to their local monopolies

If the level of competition in the New England state of Connecticut is anything to go by, it could take years before newcomers such as MCI make meaningful headway in the local telephone business. It is that dilemma, more than anything else, that could eventually force the sort of regulatory changes that the country's second-biggest long distance company called for last week to make competition a reality.

Connecticut has provided something of a test case for competition in the local telephone business for some time. Southern New England Telecommunications, the state's local carrier, has always stood outside the Bell system, and its monopoly on local calls was broken three years ago by state regulators.

Rivals, though, have found it almost impossible to break into Connecticut, taking only a minuscule portion of

the state's local calls. SNET, on the other hand, has been highly successful in stealing long-distance customers, signing up around two out of every five telephone users in the state – a fact held last month by Mr Reed Hundt, chairman of the Federal Communications Commission, as an indication of the effects that competition could eventually have around the country.

It is this one-sided effect of competition that lies behind the two events that have hit the US telecoms industry in the past two months: AT&T's discussions, eventually abandoned, about a merger with SBC Communications, and MCI's announcement that it would lose \$800m this year, and probably as much again in 1998, from its efforts to break into local markets. The latter reverberated across the Atlantic, shaking the \$300m merger plans of MCI and BT.

Both the AT&T and MCI

developments reflect the apparent vulnerability of long distance companies to competition in their core markets and the difficulties they have had in breaking into local calling since the passage 15 months ago of the Telecommunications Act.

According to MCI, those problems stem almost entirely from a rearguard action by the Baby Bells, whose monopolies on local calls are proving tough to crack. The Act sought to entice the Bells to allow newcomers into their markets by offering the carrot that only then could they offer long-distance calling within their own geographic regions: that, though, has proved too weak an inducement.

There is certainly some truth behind this claim. It was a legal challenge by the Bells that has in effect blocked an FCC order, adopted last August, that

on which local carriers had to sell capacity on their exchanges to rival companies, allowing competition to take place.

Almost as important have been the technological and marketing difficulties faced by companies as they try to break into markets dominated by competitors. In the highly charged political atmosphere that has resulted, it is often impossible to tell whether the obstacles have been erected deliberately or whether they are natural teething problems.

A complaint from all newcomers, for instance, has been the delay and expense involved in installing the systems needed to switch customers from a Baby Bell to a new competitor. In response to MCI's complaint last week, the FCC said it already had a study under way into "the possibility of establishing performance

standards and other requirements" for these electronic systems.

Whatever the root cause of these problems, most Wall Street analysts believe that the difficulties have been clear for some time – and that MCI and its proposed partner, BT, should have anticipated them.

"If there is anything wrong, it is that there was too much optimism and unrealistic expectations all around, including in Congress," says Ms Anna-Maria Kovacs, an analyst at Janney Montgomery Scott.

Besides greater regulatory scrutiny of whether technological issues are being used as a barrier to competition, two things in the coming months could serve to break the deadlock. Foremost would be a decision from a Federal appeals court on the block that has been put on last August's FCC order. The issue is expected to end up in the Supreme court.

Each step in the legal process, though, brings closer the point when the final outline of the regulatory playing field comes into view. Even if long distance companies do not get all they want, they will at least not face the uncertainty that currently obscures the landscape.

The second possibility is that more regulatory intervention, particularly at the state level, could force competition to take root more quickly. In Connecticut, SNET's stranglehold on the local calling market is under threat from a state-wide ballot, called for early next year, that will require every resident to choose who they want as their local carrier. Other states may be far behind, but moves like this suggest that the sort of regulatory action called for by MCI to open up local markets may eventually follow.

Richard Waters

CHIA HSIN CEMENT CORPORATION

Global Depository Receipt

issued by Morgan Guaranty Trust Company of New York

Public Announcement of Issuing New Shares

On May 8, 1997, the ordinary shareholders meeting of Chia Hsin Cement Corporation resolved to increase paid-in capital of NT\$ 291,632,900 from unappropriated retained earnings by declaring stock dividends of 29,163,290 common shares.

Application for such issuance was approved by the Securities and Exchange Commission of the R.O.C. on June 12, 1997.

The record date for distribution of new shares is July 16, 1997. Stock dividend paid out of retained earnings shall be distributed on the basis of 50 new shares per 1,000 registered shares owned, according to the records of holding shown in the shareholders' register as the record date.

Arrangements for GDR-Holders

GDR-Holders will receive:

- GDRs distributed from Retained Reserves – sppr 43 GDRs per 1,000 GDRs owned (1).

Note: If the number of GDRs to which any GDR-Holder is entitled is not 100 or an integral multiple thereof, the Depository shall endeavor to arrange for the sale of such shares and the net proceeds of sale shall be distributed to the GDR-Holder entitled thereto.

- Remaining cash (1) 20% R.O.C. withholding tax will be charged on the per value of the stock dividend out of retained earnings received by a non-resident GDR-Holder. In order to cover this withholding tax, approximately 7 out of each 50 GDRs distributed will be sold.

Distribution of new shares and cash is expected to be around mid-September 1997, depending upon the date of registration approval from the R.O.C. Ministry of Economic Affairs.

Depository: Morgan Guaranty Trust Company of New York
Avenue des Arts 35, 1040 Brussels Belgium

JP Morgan

COMPANIES AND FINANCE: UK

ICI changes the formula with £1.7bn sale to rival DuPont as it aims for leadership in speciality chemicals

Disposals throw out bad performers

By Roger Taylor

Mr Charles Miller Smith, chief executive of Imperial Chemical Industries, yesterday got himself out of a tight corner by announcing the \$3bn disposal of two industrial chemicals businesses - titanium dioxide and polyester - one week before the company's interim results.

After repeated analysts' profit downgrades this year, ICI issued a trading statement yesterday accompanying the disposal announcement, which said interim profits would be marginally below market expectations at £160m - less than half last year's figure.

Analysts described the figure as awful but ICI can now brush criticism aside and say that it is all history. The divisions most responsible for the poor result are the ones being sold to DuPont of the US.

The trading figures illustrate why ICI has been so keen to sell its industrial chemicals businesses and remake itself as a leader in speciality chemicals.

Mr Miller Smith said yesterday the chemical industry was becoming polarised between the bulk industrial chemicals companies such as DuPont and the suppliers of higher margin, specialist products. He was clear

which side of the divide he wanted to be.

In industrial chemicals, ICI has had to endure savage swings in prices and a big exposure to currency movements. The rising value of the pound cost ICI \$90m in the first half, it said in its trading statement. Moving into specialist chemicals would mean more consistent earnings and reduced currency exposure since products tended to be manufactured and sold locally.

The first part of ICI's transformation was the \$4.9bn acquisition of Unilever's speciality chemicals business last week.

The second, and arguably harder, part was selling the industrial chemicals businesses. Industrial chemical prices have been falling for two years and ICI and analysts questioned the company's ability to sell.

The company has been under pressure to sell because of the \$8.5bn loan funding the Unilever acquisition. It was forced to take the loan on relatively unattractive terms after a credit rating downgrade.

Mr Miller Smith said the day was now close when it would be able to refinance its debt but he accepted that it would not meet its target of maintaining interest cover of three times until next

year. Analysts forecast interest cover of between two and three times this year following the disposal, which will be earnings enhancing and rising to four times by 1999.

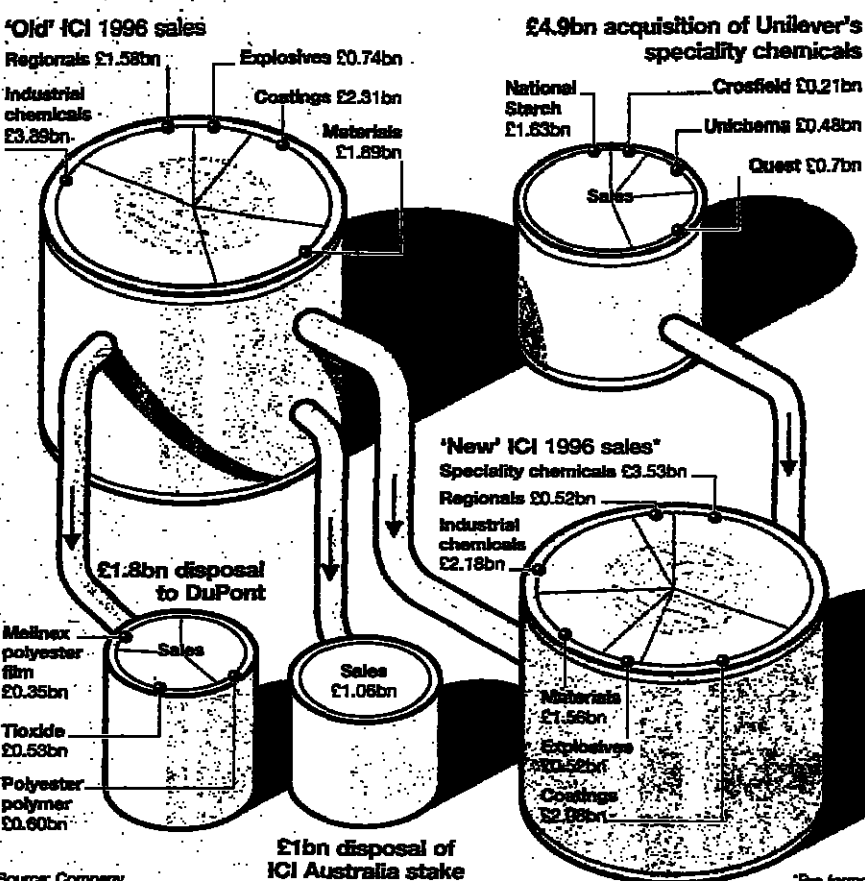
Freeing the balance sheet is vital for ICI's expansion plans. The strategy now, Mr Miller Smith said, was to buy smaller, speciality competitors in whose market there was considerable room for consolidation. In adhesives, for example, where ICI will be the second largest company with market leadership for industrial products, it has a market share of just 6 per cent.

ICI has made clear that this will not be the end of its disposal programme. But analysts said it had sold the best businesses in the division.

The remaining industrial chemicals businesses, with sales of about £2bn, plus the explosives and the regional businesses, with sales of a further £1bn, might raise up to £1.5bn.

However, Mr Miller Smith said the sale to DuPont meant that ICI was no longer a forced seller and could now afford to wait for the best opportunities. The heat is off, for the time being, and ICI can begin to focus on building its new business as much as on selling off the last bits of the old company.

ICI: the transformation so far



Source: Company

Pro forma

Price to pay for low-hassle Tioxide exit

By Ross Tienan

Few thought ICI would find such an elegant exit from the tricky business of colouring paints, plastics and paper. But the price of a low-hassle exit may be a bigger write-off than the company had hoped.

Previously, ICI had bravely talked of floating off Tioxide, its titanium dioxide manufacturing business, next year with an asset value of £700m (\$1.18bn) being the best guide to what it would fetch.

But after an 18-month slump in the price of titanium dioxide that pushed many of the world's manufacturers into loss, ICI's operations among them, persuading investors to buy the business could have been tough going.

Yesterday's agreement to sell all the operations outside North America to DuPont provides ICI with a much simpler exit. It was also seen as a clever strategic move by DuPont. The US chemicals group is already the world's biggest titanium dioxide producer, with about 22 per cent of a world market consuming 4m tonnes of the whitener every year.

It has agreed to pay \$750m for all of ICI's operations outside North America. In addition, it has agreed to guarantee that ICI will receive at least \$150m for its residual North American business, promising to make up the difference if a lower price is achieved.

In effect DuPont has underwritten ICI's exit for

no less than \$840m.

ICI is the world's second-largest titanium dioxide producer. DuPont is buying plants with a total capacity of 535,000 tonnes, divided between sites in the UK, France, Spain, Italy, Malaysia and South Africa, where it has a joint venture with AECI. In 1996 these plants recorded a trading loss of £12m, on sales of £53m. The previous year, they made profits of £51m.

The deal will give DuPont long-sought manufacturing capacity in Europe, as well as additional operations in east Asia, lifting its share of the world market to about 35 per cent.

Such a large market share is certain to attract the interest of the US Federal Trade Commission and the European Commission. Mr Charles Miller Smith, chief executive of ICI, said: "There are clearly going to be issues, but we are confident we are going to get through them."

But the risk of regulatory opposition stopped DuPont buying ICI's US Tioxide assets. These amount to a market share of 120,000 tonnes a year, partly met from ICI's share of production at a 100,000 tonne plant in Louisiana, jointly owned by Kronos, a subsidiary of NL Industries of the US. ICI paid \$200m for its half of the Kronos plant 4½ years ago.

Overall, the UK chemicals group now expects a book loss on the sale of its titanium dioxide business of £140m, and to write-off goodwill of £130m.

DuPont still sees money in white pigment

Tracy Corrigan in New York looks at how the acquisition will fit into the US group's global strategy

DuPont, the largest chemicals company in the US, still thinks it can make money in industrial chemicals. Its acquisition yesterday of ICI's white pigment business outside North America and its global polyester business shows how far the strategies of the two chemicals groups have diverged.

"ICI has chosen to move towards the consumer end of the business," said Mr John Krol, DuPont's chief executive. "Our strategy is to take some of our businesses where we have a strong position and low cost base, global." He said the

restructuring in the past three to four years had left DuPont with "16 to 17 businesses, most of which are very strong globally."

Mr Krol implied that the restructuring of the chemicals business was now complete. He said the group would now focus on the life sciences business which was formed last year from its agricultural products and pharmaceuticals businesses. "It is part of our strategy to strengthen that business. This could include alliances and acquisitions."

DuPont's radical restructuring in the past few years included the sale of under-

performing assets, job cuts and plant closures, resulting in savings of \$30m annually in fixed costs.

Businesses sold include printing and publishing, coal, electronics and medical devices. DuPont "has done a good job of streamlining its assets," said Mr Christopher Willis, chemicals analyst at Schroders.

Despite the restructuring, DuPont's business remains broad-based. Conoco, its oil and gas business, is a strong contributor to profits, producing revenues of \$25bn, more than half the group's total. The businesses acquired from ICI are, by

comparison, expected to realise revenues of about \$3.5bn.

There has been widespread speculation among analysts that the oil business could be spun off. Mr Krol said he believed the restructuring had been thorough and he did not foresee any disposals.

But the most significant step of recent years was the 1995 repurchase of Seagram's stake in DuPont. The \$8.8bn transaction was "done at an extremely attractive price and had a very positive impact financially," said Mr Willis. "DuPont basically bought

back 25 per cent of the stock at a cheap price. It was one of the most successful share buy-backs ever."

The repurchase had the short-term effect of making its balance sheet appear to be highly leveraged, by reducing the value of shares, but

the company enjoys a strong cash flow, and had repaid the debt incurred in 1995 by the start of the year. The ICI acquisition is expected to dilute earnings by less than 1 per cent in 1998 and to boost earnings the following year.

RESULTS

										Dividends			
		Turnover (£m)	Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year		
Ashtead	Yr to Apr 30	147.6	(65.9)	25.3	(16.6)	161	2.93	Oct 8	2.42	3.85	3.07		
Carverham & Gray	Yr to Mar 31	134.4	(80.6)	5.21	(1.74)	5.42	2.93	Oct 3	2.7	10	9.2		
Ellis & Eward	Yr to Apr 30	645.3	(584.1)	29.6	(25.6)	22.7	6.7	Oct 6	3.8	10	9.7		
Lorion	6 mths to May 31	52.8	(18)	0.889	(0.6)	1.15	2.5	Sept 1	2.5	-	7.5		
Parsons	Yr to Mar 31	30.7	(27)	2	(1.17)	1.38	-	-	-	-	-		
Pratt & Land	6 mths to Mar 31	5.98	(5.6)	1.93	(1.08)	3.23	2.7	-	-	-	-		

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *After exceptional charge. †On increased capital. +Comparatives for 11 months. ‡\$4m stock.

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INTERNATIONAL CAPITAL MARKETS

Dollar strength drags down Europe

GOVERNMENT BONDS

By Krishna Guha and Vincent Boland in London and John Labate in New York

European bond markets were dragged downwards yesterday by the strength of the dollar against the D-Mark, which pushed bonds lower. Other markets fell in tandem, with some profit-taking after recent gains in BTs and gilts.

GERMAN BONDS fell back after the dollar rose 2 pence to DM1.79, leaving investors nursing currency losses and raising fears that the Bundesbank may raise interest rates to bolster the D-Mark.

The benchmark September futures contract fell 31 basis points to settle in London at 102.67, and continued to fall further in late trading. The 10-year bond yield, which had tested the 5.5 per cent barrier last week, rose to about 5.57 per cent.

December interest rate futures fell by 0.1 to settle at 96.84 at 11pm, implying a 38 basis point tightening by the end of the year.

Bunds took their cue from the currency market. But traders said there was also a "lack of confidence in Germany's ability to reach 3.0 per cent" - the maximum deficit permitted under the Maastricht treaty.

Mr David Brown, chief European economist at Bear Stearns, said the impact was strongest at the front end of the yield curve. Short-dated bonds were "trashed" by fears of German rates rising "sooner rather than later" to curb inflationary pressure from the weak currency.

The 10-year bond spread over two-year bonds narrowed to 196 basis points. Some analysts said the yield curve could flatten further, to about 175 basis points.

However, others said that volumes were light, and most real money accounts remained on the sidelines.

Mr Mark Fox, chief European strategist at Lehman Brothers, said the dollar had risen by only 4 pence since July 4 - a "significant move, but not an enormous one".

ITALIAN BTs tracked the German bond and currency markets lower, with the September futures contract closing 0.49 down at 136.29. Talks on reform of the country's pension system, seen as an important part of Italy's attempts at "structural convergence" ahead of European monetary union, resume today.

Analysts said the outcome would be a crucial pointer for bond markets, and the talks are set to run into negotiations on the 1998 budget with a lot of political horse-trading.

The **FRANCH BOND** market, which was closed yesterday for the Bastille Day holiday, is expected to open lower today.

UK **GILTS** surrendered the strong gains of Friday, fall-

ing sharply in spite of benign producer price inflation figures, which showed output prices fell by 0.2 per cent in June - the biggest monthly fall in a year.

The benchmark September gilts futures contract fell 1/4 to settle in London at 114.3. The 10-year gilt spread over German bonds widened 3 basis points to 164 points as investors concentrated on the risk of higher interest rates to curb consumer spending.

Analysts said gilts offered "excellent relative value". The market was being buffeted by supply considerations - rising on Friday on news that there would be no third-quarter issue of 10-year gilts and falling yesterday in anticipation of a forthcoming issue of popular 21-year gilts.

Trading in **IRISH GILTS** was quiet, with analysts pointing to a lack of new paper. Redemptions are running far ahead of new issues and the government's com-

fortable budget position means that it does not need to tap the market.

The strength of the punt, and uncertainty about where it will settle against the D-Mark and sterling, kept foreign investors at bay. But Mr Oliver Mangan, at AIB Group Treasury in Dublin, said investors in the market are sitting tight, and domestic buyers are ready to snap up any new paper.

US TREASURIES edged lower in very light morning trade volume. By mid-afternoon the benchmark 30-year Treasury bond had slipped 1/4 to 101.3, sending the yield higher to 6.81 per cent.

In shorter-term trading, the two-year bill fell 1/4 to 101.3, yielding 5.57 per cent, while the 10-year bond was down 1/4 to 102.5, yielding 5.57 per cent.

An early-morning release by the Atlanta Federal Reserve had little impact on the market, despite a strong growth component.

Analysts are now more

concerned with price data than economic growth, as they have become used to solid growth figures without strong upticks in inflation.

The Treasury market opened lower after overnight selling in the Middle East. The dollar strengthened against European currencies. "There's a safe haven in the US market and Treasuries are holding," said Mr Richard Gilhooly, international bond strategist at Paribas Capital Markets in New York.

Tuesday will mark the beginning of what could be a more volatile period with the release of important economic reports, beginning with June retail sales. One survey of economists predicts retail sales will be unchanged for the month.

On Wednesday, the consumer price index for June, industrial production, and capacity utilisation reports will also be issued. Soon after, housing starts for June will also be released.

Brazil launches debut sterling 10-year offer

INTERNATIONAL BONDS

By Edward Luce

Brazil topped the bill on an otherwise lacklustre day with its first sterling denominated offering. The £150m 10-year bond, Brazil's fifth in a European currency to date, was priced to yield 275 basis points over 10-year gilts. Brazil had earlier postponed the deal after the Bank of England raised interest rates by 25 basis points last week.

Worries over the trajectory of the UK market had clearly subsided by yesterday and syndicate officials reported a steady opening session.

"Brazil has prepared the ground quite carefully in the UK so it was not a bolt out of the blue," said a banker at BZW, joint book-runner with Credit Suisse First Boston. About 60 per cent of the paper went to UK institutions, with demand reported from Switzerland, the middle east and offshore US accounts.

Officials said the paper was trading flat to its offer price in the secondary market yesterday. Brazil becomes the third Latin American borrower to tap the sterling market after Mexico and Argentina. The UK market is considered one

of the most difficult for emerging market borrowers owing to the conservative outlook of many UK institutions. Argentina's 10-year bond was issued at 280 basis points over gilts and has since tightened by about five basis points.

Elsewhere, **GENERAL MOTORS** followed Denmark, KfW and the European Investment Bank by choosing to issue D-Marks in a six-year maturity. The DM250m issue was priced to yield 32 basis points over bonds.

"Investors are moving down the credit curve and up the maturity curve to get

New international bond issues							
Borrower	Amount m.	Coupon %	Price	Maturity	Yield %	Spread bp	Book-runner
■ US DOLLARS							
Nordeste/Landesbank	200	6.00	99.50R	Aug 2000	0.1675R	+86(R)/44(M)/40(B)	Bear Stearns/Nordeste
Alex RGL/US	150	(a1)	100.00	Jul 2002	2.50	-	Lehman Brothers Intl
Ascent Capital/US	100	(b1)	100.011	Jul 1999	0.05	-	Barclays de Zotte Weid
■ D-MARKS							
GMAC (Canada)	250	5.125	99.63R	Dec 2003	0.325R	+32(R)/34(M)/30(B)	BZW Deutschland
■ STERLING							
Federative Rep of Brazil	150	10.00	99.838R	Jul 2007	0.75R	+275(R)/24(M)/21(B)	BZW/CSCB
■ SWISS FRANCES							
Bayernische Landesbank	150	2.50	101.75	Aug 2002	2.00	-	UBS
■ LUXEMBOURG FRANCES							
CLT UFAR	2.5bn	5.125	102.50	Dec 2002	1.875	-	BL/Credit Europe
■ SOUTH AFRICAN RAND							
Eskom	6bn	zero	2.45R	Aug 2007	0.125R	-	Deutsche/Toronto Dom
Final terms, non-callable unless stated. Yield spread over relevant government bond at launch supplied by lead manager *Unrated. 3-6 Month. 10-15%: Floating-rate note. R: Fixed non-offer price; face shown at non-offer level. At Pricing on Thursday. Exchangeable into shares of Aler Maritime at indicated percentage of 18-22%. Callable from July 03 at par. a1) 4-4							

First terms, non-callable unless stated. Yield spread over relevant government bond at launch supplied by lead manager. Unadjusted, 5 Conventional, 2 Floating rate notes. 15 basis point price concession at offer level. All figures on Thursday. Exchangeable into shares of Alter Maritim at indicated premium of 18-22%. Callable from July 01 at par. a) 4% 5-yr, b) 3-yr, c) 10-yr, d) 10-yr 1st coupon, e) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's Change	Week Ago	Month Ago
Australia	10.00	10/07	124.4195	-0.189	6.67	7.33
Austria	5.75	04/07	100.0000	-0.320	5.75	5.75
Belgium	6.25	03/07	104.2800	-0.330	5.66	5.62
Canada	7.25	03/07	104.1900	-0.200	5.00	5.02
Denmark	7.00	06/07	106.6500	-0.250	6.11	6.13
France	5.75	03/02	100.0000	-0.000	4.44	4.73
Germany Bund	5.50	04/07	100.0000	-0.000	5.40	5.77
Italy	6.00	07/07	103.5600	-0.090	5.53	5.81
Ireland	6.00	08/06	100.6400	-0.130	6.39	6.37
Japan	8.75	02/07	102.5100	-0.240	6.39	6.44
Netherlands	5.50	02/06	118.4363	-0.300	1.57	1.56
Portugal	7.35	03/07	107.8400	-0.340	6.22	6.21
Spain	7.00	08/07	111.2900	-0.440	6.48	6.97
UK Gilts	7.00	06/02	99.12	-0.32	7.15	7.11
US Treasury	7.25	12/07	101.05	-0.32	7.08	7.01
US Treasury	6.625	10/09	111.12	-0.25	7.12	7.04
US Treasury	6.625	05/07	102.28	-0.32	6.24	6.25
ECU (French Govt)	6.00	02/07	101.03	-0.32	6.54	6.57
ECU (French Govt)	6.00	04/09	100.00	-0.000	5.71	6.04

London closing, New York mid-day. Prices include brokerage. US prices are in cents payable by bondholder. Source: Standard & Poor's M&I.

US INTEREST RATES

	Rate	One Month	Three Month	Six Month	One Year	Two Year	Three Year	Five Year	Ten Year	Thirty Year
Prime rate	8 1/2									
Banker's rate	7 1/4									
Fed funds	5 1/4									
Discount rate	5 1/4									
10-year Treasury	5.57									
30-year Treasury	6.81									

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FF500,000 (Jul 11)

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	130.50	130.58	+0.14	130.68	130.38	9,894	211,596
Dec	99.12	99.25	+0.14	99.28	99.12	659	3,945
Mar	98.52	98.66	+0.14	98.62	98.52	2	

LONG TERM FRENCH BOND FUTURES (MATIF) (July 11)

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	130.50	130.58	+0.14	130.68	130.38	9,894	211,596
Dec	99.12	99.25	+0.14	99.28	99.12	659	3,945
Mar	98.52	98.66	+0.14	98.62	98.52	2	

Germany

NOTIONAL GERMAN BOND FUTURES (LIEFE) DM250,000 100ths of 100%

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	103.07	102.67	-0.40	103.14	102.50	158,004	287,741
Dec	102.17	101.75	-0.41	102.17	101.75	35,599	92,718

UK GILT PRICES

	Yield	Price	Change	High	Low	Est. Vol.	Open Int.
Short	5.57	99.12	-0.32	99.12	99.12		
10-year	5.57	102.51	-0.24	102.51	102.51		
30-year	6.81	100.64	-0.13	100.64	100.64		

BUND FUTURES OPTIONS (LIEFE) DM250,000 points of 100%

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	136.96	136.29	-0.67	137.10	136.12	46,202	107,586
Dec	103.34	102.84	-0.50	103.34	102.84	0	1,890

ITALY

NOTIONAL ITALIAN GOVT. BOND (BTF) FUTURES (LIEFE) Lire 200m 100ths of 100%

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	136.96	136.29	-0.67	137.10	136.12	46,202	107,586
Dec	103.34	102.84	-0.50	103.34	102.84	0	1,890

ITALY GOVT. BOND BTF FUTURES OPTIONS (LIEFE) Lire200m 100ths of 100%

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	136.96	136.29	-0.67	137.10	136.12	46,202	107,586
Dec	103.34	102.84	-0.50	103.34	102.84	0	1,890

Spain

NOTIONAL SPANISH BOND FUTURES (MIFR)

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	118.03	117.56	-0.47	118.10	117.41	64,165	64,484
Dec	101.31	101.32	-0.01	101.31	101.32	0	252

UK

NOTIONAL UK GILT FUTURES (LIEFE) £50,000 32nds of 100%

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	114.25	114.06	-0.19	114.30	114.03	64,159	177,149
Dec	111.03	110.75	-0.28	111.03	110.75	0	1125

LONG TERM UK GILT FUTURES (LIEFE) £50,000 32nds of 100%

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	114.25	114.06	-0.19	114.30	114.03	64,159	177,149
Dec	111.03	110.75	-0.28	111.03	110.75	0	1125

EURO

NOTIONAL EURO BOND FUTURES (MATIF) ECU100,000 (Jul 11)

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	97.34	97.28	+0.06	97.34	97.16	1,330	6,057

US

NOTIONAL US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	114.05	114.00	-0.05	114.07	113.98	380,787	470,519
Dec	113.20	113.21	-0.01	113.26	113.17	4,418	30,322
Mar	113.00	113.00	-0.00	113.09	113.00	4,129	9,822

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIEFE) ¥100m 100ths of 100%

	Open	Settle	Change	High	Low	Est. Vol.	Open Int.
Sep	124.85	124.85	-0.00	124.87	124.87	0	n/a

* LIEFE futures also traded on APF. All Open Interest figures are for previous day.

Other Fixed Interest

	Yield	Price	Change	High	Low	Est. Vol.	Open Int.
Adia 10% 2000	8.37	73.12	-0.12	73.12	73.12		
Adia 10% 2000	8.37	73.12	-0.12	73.12	73.12		
Adia 10% 2000	8.37	73.12	-0.12	73.12	73.12		

FTSE Actuaries Govt. Securities

	Yield	Price	Change	High	Low	Est. Vol.	Open Int.
UK Gilts	Jul 14	change %	Jul 11	interest		ytd	
1 Up to 5 years (20)	119.39	-0.09	119.49	2.17	6.01	5 yrs	
2 5-15 years (20)	151.63	-0.44	152.30	1.67	6.96	15 yrs	
3 Over 15 years (20)	181.91	-0.79	183.35	3.87	5.02	20 yrs	
4 Intermediate (5)	210.93	-					

Japan

Official deregulation is just one symptom of a wider, spontaneous acceptance of market forces. Old business alliances are being reviewed in a harsher, more market-oriented light, writes William Dawkins

Market forces are allowed to advance

Change is hard to spot in Japan because it tends to happen incrementally, without great fanfare.

But to many people's surprise, not least that of the Japanese themselves, there have been significant changes this year. Market forces have been allowed to advance into several hitherto protected sectors of the most tightly controlled economy in the developed world.

The archetypal Japanese convention that the broad interests of society come before market efficiency and the interests of individuals has been thrown open for reassessment. In several important areas, such as financial services, transport, and energy, it has even begun to break down, with potentially wide-ranging consequences.

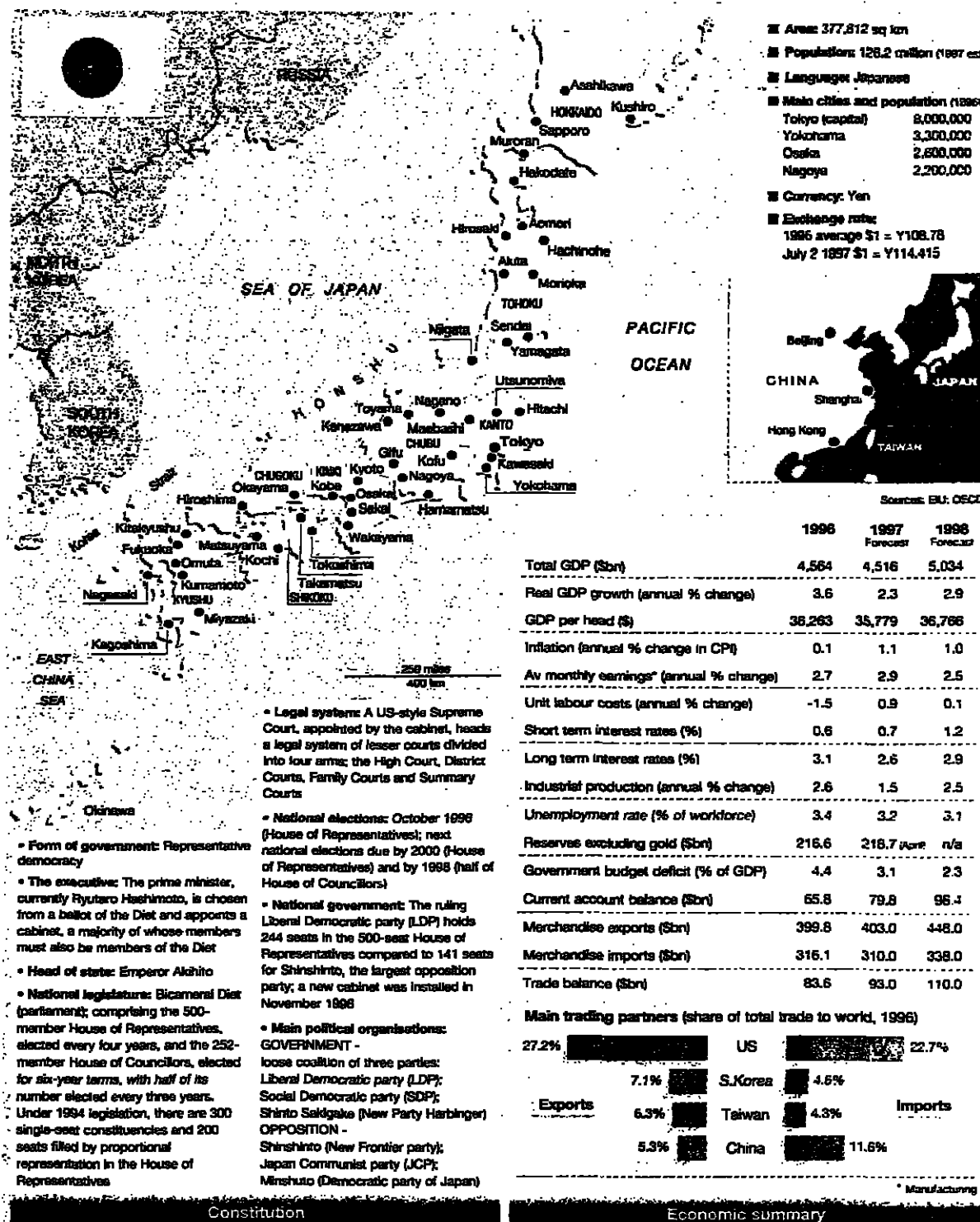
All this comes, curiously, with an enthusiastic shove from the Liberal Democratic party government, formerly conservative by instinct and tradition. The administration of Mr Ryutaro Hashimoto was wrongly seen by

many as a symbol of return to the old system when it took office last October. It appeared to mark the end of a four-year political struggle between advocates of a "new Japan" and the scions of the old system, based on defending, not challenging, vested interests.

Instead, Mr Hashimoto has adopted the deregulation policies of his political opponents and carried them out with unexpected energy. This is in line with the LDP's tradition of occupying the opposition's territory, but it has also brought the ruling party on to genuinely new ground.

Foreign attention has focused on the government's 2,800-point deregulation programme which includes the so-called "Big Bang" proposals to make financial markets as efficient and competitive as London or New York by 2001.

A gauge of how real is the Big Bang plan is the speed with which parliament agreed in April to abandon exchange controls from next year. Theoretically, this



makes more sweeping deregulation inevitable - as it was in the UK after the abandonment of exchange controls in 1979 - because it leaves the authorities with no means to stop financial business leaving Tokyo in search of cheaper markets abroad.

The only option now is to bring Tokyo market costs

and efficiency to the same level as its best competitors. In defiance of cynics, the government has adopted a rigorous timetable intended to bring this about.

Finance is not the only sector where Japan is undergoing a culture change. In energy, for example, the end of a cartel on oil imports last year has since caused petrol

prices to fall by a fifth, forcing a collapse in domestic oil refiners' profits. In transport, permission was granted last October for the formation of four new domestic airlines, the first in 46 years, to operate on the world's busiest route, from Tokyo to Sapporo.

In telecommunications, Nippon Telegraph and Tele-

phone, the dominant carrier, is to be split, along US lines, between a long-distance and international group and two local operators by 1999. It has been obliged to open domestic lines to foreign companies.

But official deregulation is just a symptom of a wider, spontaneous acceptance of market forces. Equity invest-

mentors, for example, have, over the past nine months or so, begun to recognise that it is no longer realistic to value companies on the basis of their membership of a group or sector. Share prices no longer move in predictable bands between and within sectors, as they once did, on the assumption that stronger companies would always bail out weaker brethren.

Elsewhere, old business alliances are being reviewed in a harsher, more market-oriented, light. Cracks have opened in the *keiretsu* system of corporate families, loose alliances between suppliers, manufacturers, distributors and banks linked by dozens of cross-shareholdings and an unspoken preference to do business with each other. Now, it is no longer heresy for a *keiretsu* member to buy supplies outside the group, or to borrow from an unrelated bank.

Why are all these changes happening only now, more than a decade after the US and much of Europe underwent their own version of economic deregulation?

One answer is that policy debate has always taken a long time to become action in Japan. Many of the reforms now occurring have been under consideration for years. Deregulation was the rallying call of the two unstable coalitions which ruled when the LDP was forced into opposition for the

first time in its life for nearly a year until mid-1994, as it was for all leading parties in last autumn's general election.

Another factor is the moderate strength of the economy. After the longest slowdown since the 1930s, Japan's gross domestic product grew by 3.6 per cent last calendar year, the best performance in the Group of Seven. Growth in the first quarter of this year was a solid 2.5 per cent over the same period last year.

Unemployment, while high by Japanese standards at 3.3 per cent, is still far from being a social problem. Meanwhile, manufacturers' pre-tax profits rose by a healthy 20 per cent in the year to March, a tribute to the efficiency gains made under pressure of the recession, but also helped by the impact of a weak yen on their foreign competitiveness.

In consequence, policy makers and businessmen feel that the economy is just about robust enough to cope with the short-term pains - a rise in bankruptcies and possibly unemployment - that go with greater competition.

The exception that proves the rule, of course, are the weaker financial institutions, still burdened with bad debts inherited from the rush of irresponsible lending during the late 1980s asset price bubble. They are ill-

Continued on Page 11

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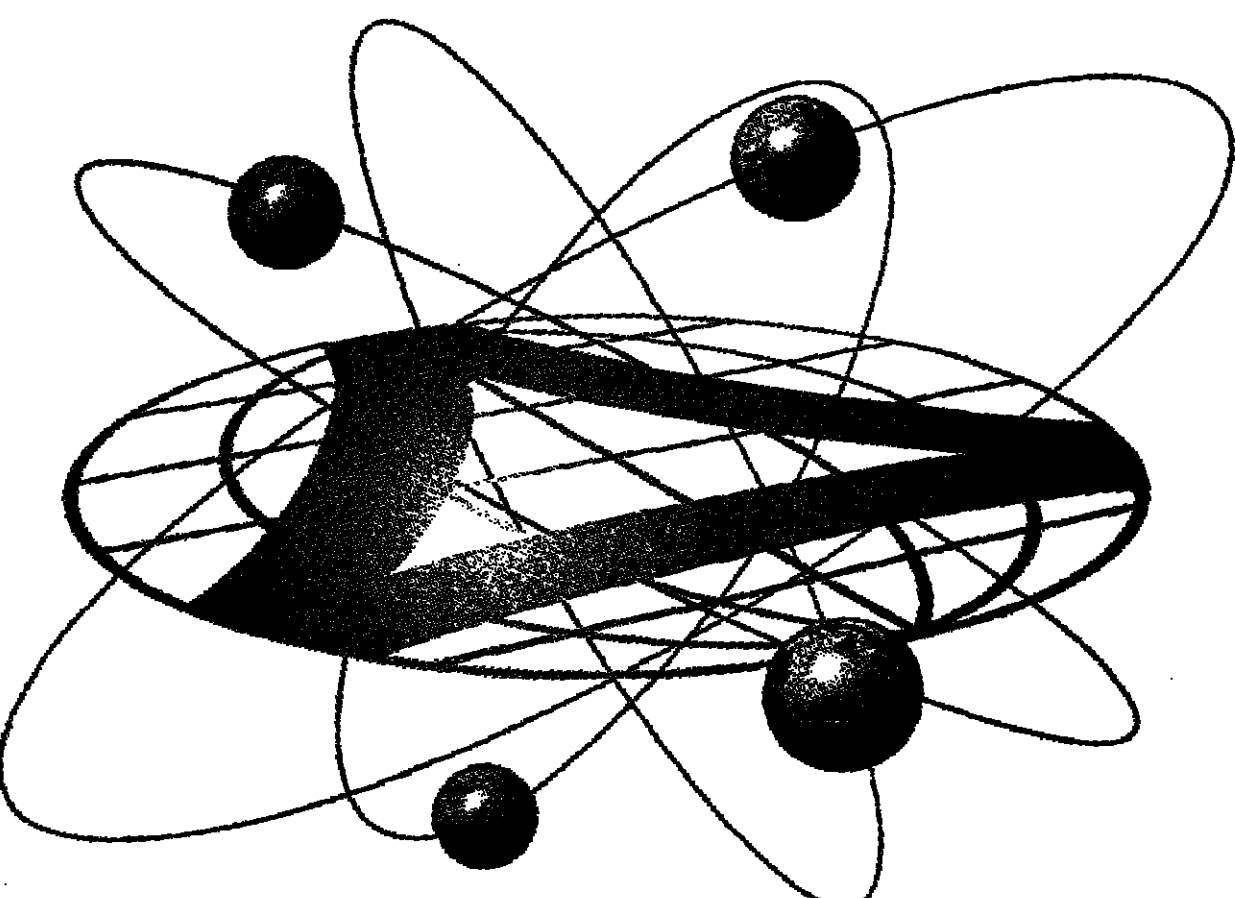
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II JAPAN National affairs

THE ECONOMY • by Gillian Tett

Short-term confidence and long-term worries

The growth rate is far lower than is needed to tackle the problems of an ageing population

Take a look at Japan's recent economic statistics, and you might think Japan is basking in healthy growth: last year the economy expanded by 3.6 per cent – the highest rate in the G7. But glance at consumer confidence surveys instead, and you might suspect it was in recession: 55 per cent of the population apparently now thinks Japan's economic outlook is "bleak": the highest figure on record. The paradox reveals a broader dilemma. For though Japan now appears to be on the brink of a long, benign recovery, it is having

to adjust to a growth rate far slower than that seen during the heady 1980s. And this in turn is provoking a flood of anxiety about whether the country will be equipped to cope with the economic consequences of its maturing economy – and, in particular, an ageing population. As one senior government official says: "The short-term economic outlook for Japan is not bad. It is the longer term picture that is the issue now."

The short-term picture is certainly encouraging. After a fragile recovery in 1995, the economy has since been growing steadily, notching up a year-on-year expansion rate of 2.5 per cent in the first quarter of 1997.

Growth this year is expected to be slower than last due to a controversial decision to raise the consumption

tax from 3 per cent to 5 per cent at the start of April. Economists at the Long Term Credit Bank of Japan calculate this, coupled with other income tax changes, will remove some ¥2,800bn worth of personal consumption from the economy this year, or about 0.6 per cent of gross domestic product.

But although some economists feared this fiscal tightening might seriously derail recovery, this does not appear to have happened. Firm evidence about the impact of this will not emerge until later this summer, when second-quarter data on GDP is released.

But early signals are encouraging. Consumption has fallen: department store sales in May, for example, were 5.1 per cent lower than a year earlier. However, this came after abnormally

strong sales before the tax. Meanwhile, the Bank of Japan's authoritative June "Tankan" survey of business confidence was relatively upbeat: although non-manufacturing companies remained gloomy, manufacturers actually became more optimistic after the tax rise. This relatively cheerful picture still owes much to overseas demand. In particular, exporters have been seeing sharply rising sales on the back of recent currency movements: after soaring to a high of ¥79.95 against the dollar in 1995, the yen then fell to a low of ¥127 at the end of April this year.

In May, for example, Japan's trade surplus more than tripled compared to a year earlier, with a 20.5 per cent rise in exports, and a 43.3 per cent surge in foreign car sales.

However, most economists now think that consumption will rebound in Japan later this year, leading to a more balanced recovery. And there seems little serious risk that inflation could mar the picture: although consumer price inflation was 1.9 per cent in June, this was almost entirely due to the impact of the consumption tax increase.

Meanwhile, the Bank of Japan appears to be taking a relaxed stance. Speculation erupted in early June that the Bank might soon raise rates from their current historically low levels of 0.5 per cent. However, this has since faded: whereas in May futures markets were predicting interest rates of 1.5 per cent in spring 1998, they now expect rates of only 1 per cent. These trends leave most economists forecasting

growth of around 2 per cent this year, and rather higher next – a relatively benign picture in comparison to the G7 longer term trend.

But the problem is that the growth rate is markedly lower than Japan has experienced in earlier decades, and arguably far less than it needs to tackle its longer-term problems of an ageing population.

Japan currently has the fastest ageing profile of any leading economy. But its pension system is woefully underfunded. Consequently, the Organisation for Economic Co-operation and Development calculates that without radical action the pension burden will push the national debt from the present 10 per cent of GDP to nearly three times GDP in 2030.

The government is trying

to tackle this with pension reform. But what is really needed is for Japan to raise its productivity, or the output of GDP per worker. GDP per worker has been growing at an annual rate of 1.4 per cent this decade, according to calculations by Merrill Lynch, compared with 1.8 per cent in the 1980s and 2.3 per cent in the 1970s.

Some economists see signs of improvement. Mr Kenneth Courtois, chief economist at the Deutsche Bank group in Asia, for example, suspects that the recession in the early 1990s has left some manufacturers in better shape than ever before. "There has been a shake-out – the survivors are now on a roll," he says.

But since manufacturing now accounts for a mere 24 per cent of GDP, compared with 35 per cent in the 1970s,

the key to productivity growth will lie – as with most mature economies – with Japan's service sector.

The government recognises this: over the past year it has unveiled a host of deregulation plans which aim to introduce more competition into previously protected areas. It calculates that these could push the annual GDP growth rate up to 3 per cent between 1996 and 2000, compared to a projected growth rate as low as 1.75 per cent without the reforms.

The changes could be a painful jolt for Japanese companies and their workers. It may be some time yet before the Japanese opinion polls start to look truly cheerful about their country's longer-term economic future.

CRISIS AT THE FINANCE MINISTRY • by Charles Smith

Empire may be starting to shrink

Concessions by bureaucrats may continue, both to silence critics and aid development

What a difference a year can make – even among the elite bureaucrats of Kasumiga-saki, Japan's Whitehall. The powerful Ministry of Finance (MoF), which seemed to be facing dismemberment at one point in the summer of 1996 as a punishment for its role in the bungled liquidation of seven insolvent housing loan companies – the "jusen" – now seems to have recovered its poise, along with the tendency to issue directives to other central government agencies and even, occasionally, to the cabinet.

Insiders say, however, that there have been important changes in the way the MoF operates, not all of them necessarily related to the *jusen* affair and its aftermath. Many of the changes seem designed to meet public criticism that the MoF has been unnecessarily secretive in the past. Officials have also been at pains to answer charges that the ministry has been amateurish in its economic management, particularly after the bursting of the "asset bubble" in 1990-91, when it underestimated the impact of collapsing real estate prices on the banking sector.

The new MoF which emerged from the 1996 upheavals is expected to focus on policy making, rather than on "gyosei shido" (administrative guidance) – a euphemism for direct intervention by bureaucrats in the decision-making processes of private companies. One result of the new approach has been an attempt to introduce greater transparency into the way the MoF responds to periodic liquidity problems in the banking sector: officials claim that they will no longer attempt to keep weaker banks in business by arranging support operations that require a subsidy by stronger institutions under the so-called "convoy system".

In the field of macro-economic policy, the MoF retains full responsibility for budget making and tax policy as well as for management of the national debt through its finance bureau. A senior official attached to the Ministers Secretariat, however, recently conceded that there might have been conflicts in the past between the MoF's fiscal responsibilities and its unofficial role as an adviser to the Bank of Japan on interest rate policy. The MoF will try to stay clear of monetary policy issues in future, the official said, even when the government feels that interest adjustments may be needed to smooth exchange rate fluctuations, or offset the deflationary effects of budget cuts.

While much of the new talk coming out of the ministry may be designed to reassure critics, two important legislative measures should help to lock in the changes. On June 11, the Diet (parliament) approved changes to the Bank of Japan Law which removed the MoF's power to hire and fire senior central bank executives. The revised law also gives greater independence to the Bank of Japan's Policy Board, a nine-man body which makes the final decision on changes to Official Discount Rate. Under the new system, Policy Board decisions will be put to the vote, instead of being unanimous, and minutes of meetings will be published.

The Ministry of Finance will be allowed to observe meetings, and retains the right to request postponement of interest changes, but sources close to the bank say that in practice the ministry is unlikely to be able to override decisions made by the Policy Board. One effect of the new system could be to increase the weight of domestic factors such as inflation in the Bank of Japan's interest rate policy, while reducing that of external factors such as exchange rates.

A second important measure, adopted by parliament on June 16, provided for the establishment of a new

supervisory agency, the Kinyu Kantokuchō, which will relieve the MoF of the day-to-day business of inspecting and regulating banks, securities companies and non-bank financial institutions. The new agency will be answerable to the Prime Minister's Office, not to the MoF, and should thus be more independent than the Securities Exchange Commission (SEC), a body set up in 1992 within the MoF "family" to supervise the securities industry.

Senior MoF officials opposed having off the ministry's supervisory functions when the idea was first mooted in 1996 by a study group made up of MoF members from the three parties supporting the Hashimoto cabinet. Now that the agency exists as a legal entity (though not yet as a functioning body) the MoF says it is "natural" to divide responsibility for policy making from inspection and supervision of banks. The ministry cites precedents in the US, Germany and France for the separation of the two functions.

Sceptics note that the Kinyu Kantokuchō will have to rely heavily on staff transferred from the MoF's banking bureau. On the other hand, the head of the new agency is likely to be picked from outside the ministry. This is important, say analysts, because the person chosen will have the right to order the closure of insolvent banks – until recently a vital weapon in MoF's armoury of controls over the financial sector.

While the MoF empire may be starting to shrink, there are signs the ministry is still badly over-stretched.

The official line from the MoF is that the time may have come to start training specialists in sectors such as insurance or securities instead of rotating administrative level officials around in many different departments. The shift towards a more specialised personnel policy could reduce the ministry's political influence. But that may be only part of the price for keeping abreast of the increasingly rapid changes in Japan's economy.

FINANCE • by Gillian Tett

Reform plans gather pace

Restructuring will be crucial if the financial system as a whole is to flourish again

When Mr Ryutaro Hashimoto, Japan's prime minister, declared last November that he would deregulate the country's protected financial sector before 2001, some observers might have felt a sense of déjà vu.

In recent years Japan's leaders have often made grandiose pledges of reform – only to quietly shelve them later. Eight months later, though, cynics have reason to rethink.

For as the reform proposals gather pace, under the catchy label of Japan's "Big Bang", a palpable sense of change is afoot in Tokyo's financial world.

There is one sign of this at the Ministry of Finance, where senior officials are now extolling their new commitment to free financial markets – and their determination to make Tokyo globally competitive again.

Another can be seen in the hefty pile of documents that the government produced in June setting out a complex timetable for "Big Bang".

This starts with the abolition of foreign exchange controls as early as next April.

However, one of the most striking hints of change is coming from Japan's vast and hitherto sleepy financial industry itself.

The prospect of deregulation is already prompting speculation about imminent

restructuring – and leaving some banks and brokers scrambling to improve their relative positions with unusual competitive zeal.

This change is undoubtedly long overdue. For the financial system now operating in Japan is essentially little different from the system established after the second world war.

This system was set up around the national goal of channeling the country's savings to industry. Consequently, different financial services were performed by different types of institutions who were not allowed to compete with each other: the "long-term credit banks", for example, provided longer term financing, while "city" banks concentrated on short-term banking.

Banks and industry were tightly intertwined: banks' customers and the banks themselves usually owned shares in each other.

Innovation and competition in the system were stifled by a practice where new products had to be approved by the government – usually on a case-by-case basis.

This pattern served Japanese industry well. But it left the banks uncompetitive and the financial system dogged by excess capacity. And the cost of this became painfully clear earlier this decade, when it emerged that many banks had lent heavily to the property market in the late 1980s – and were consequently left with huge bad debts when the property market collapsed.

This debacle is still not over. Bad debts in the banks are now on a downward trend: the financial sector's bad loans between March 1996 and 1997 fell from ¥34,799bn to ¥27,900bn. But the scale of write-offs still needed remains huge.

One regional bank, Hyogo, has already failed. Other regional groups are still fragile. Although the government has pledged to protect the 20 largest banks, it has only staved off financial problems at two – Nippon Credit Bank and Hokkaido Tokai Bank – by restructuring plans.

Given this background, starting "Big Bang" now is a distinctly risky step. But the initiative has been given a new urgency for two distinct reasons.

The first is that Tokyo has been losing share to other financial centres in recent years, because of the tight regulations and high cost of doing business in Japan: one third of trading in Nikkei 225 stock futures, for example, is now conducted in Singapore. Consequently, without rapid action it could soon lose any claim to be a main global financial centre.

But the second trigger is that the Japanese population is ageing rapidly and needs to find good ways of investing its ¥1,200 trillion savings to prepare for the future.

The present system, which was set up to benefit companies, not consumers, does not provide this. And the weakness of the pension industry was graphically illustrated in April when the

Nissan Mutual life insurance group became the first life insurer to collapse for 50 years.

These two factors have left government officials arguing that what is needed is not just the type of stockbroking reforms that were at the heart of the British Big Bang – but a far broader reform that aims to bring Japan's financial system more into line with that in Anglo-Saxon countries. The timetable of the changes they have proposed to achieve this ambitious goal is bewildering, spanning the next five years. But the key ones include:

- Lifting the current barriers between banks, securities houses and other financial institutions to spur greater competition;
- Removing bans on innovative financial products such as derivatives;
- Halting cartel-like behaviour, such as the use of fixed stockbroking commissions;
- Removing foreign exchange controls;
- Removing restrictions that determine where corporate pension fund money needs to be invested; and
- Encouraging financial industry restructuring by allowing companies to establish holding companies.

Whether these reforms will actually deliver as much as they promise – let alone make Tokyo globally competitive again – remains unclear.

There are still some big gaps in the reform proposals: key issues on taxation, for

example, have yet to be addressed. Japan does not yet have the type of legal and accounting infrastructure that could let free markets flourish. And past experience suggests that bureaucrats could yet find a way to slow the pace of change – if they wish.

But what is already clear is that these reforms will leave the Japanese banks and brokers under mounting pressure, particularly since their foreign competitors are jostling to expand their presence in Japan as well.

The biggest and healthiest groups are already trying to respond: the Bank of Tokyo-Mitsubishi, for example, is trying to reduce its risk-weighted assets to improve its financial strength; Sanwa is introducing innovative new telephone services to attract retail clients; Shizuoka, a regional bank, is considering a share buy to make itself more attractive to investors. However, the gap between the strongest and weakest is widening. Government officials, for example, concede that it is unlikely that all of the country's 200 small brokerages will survive.

Some Japanese bankers suspect that the number of leading banks could be halved in the next 10 years.

Restructuring of this sort will be crucial if the financial system as a whole is to flourish again. But it could also be very painful.

Either way, the next year in Japan's financial sector promises to be a truly fascinating one.

Market forces are allowed to advance

Continued from Page 1
equipped to face full competition. But, as one stockbroker points out, the alternative to radical deregulation is worse: the long-term decline of the Tokyo markets, with the wider economic damage that implies.

At the same time, however, the changes in Japan over the past year should not be exaggerated. Some features of the traditional, inward-looking system are still strong, for better or worse.

Foreigners are not always welcome in some of the more conservative industries, as Mr Rupert Murdoch, the Australian media magnate, discovered when he had to sell a stake in TV Asahi only nine months after buying it.

But a few months later, he found a new partner. Fuji TV, which bought a stake in Mr Murdoch's Japanese digital television joint venture. Faction politics, the foundation of the defence of vested interests, are still dominant, in that faction

bosses have the power to share out cabinet jobs.

Then again, there are signs of strain in the biggest LDP factions as followers begin to demonstrate a measure of independence from faction bosses.

The current scandal surrounding questionable payments by Nomura Securities, Japan's largest stockbroker, and Dai-ichi Kangyo Bank, the leading commercial bank to gangsters, recalls a similar wave of corruption scandals seven years ago.

The message is that, at some companies, corporate governance, a vital feature of an efficient market, remains undeveloped.

The durability of those remaining bulwarks against market forces invites what must be the biggest question facing Japan over the next few years.

That is, to what extent can it embrace the market forces needed to enable its companies to compete in an increasingly international world, while at the same

time retaining valued traditional features such as low unemployment and social stability?

Many Japanese hope that change can come with a minimum of pain. But governments in the west have long become used to surrendering significant economic sovereignty to the markets, with uncontrollable consequences.

It is getting harder for modern Japan to be as different from the west as it used to be.

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POLITICS • by William Dawkins

Significant evidence of changes

The old structure has partially collapsed, but a new one has yet to take shape

After four years of political upheaval, the Liberal Democratic party is consolidating its grip on power, almost – and yet not quite – as if nothing had changed.

On the surface, Japanese politics looks as if it has returned to the stable situation which was startlingly interrupted in the summer of 1993 when the LDP was thrown out of power after nearly four decades of rule.

Two optimistic but wobbly coalitions followed, led by politicians devoted to changing the face of Japan and to making government more responsive to the needs of consumers.

The aim, to foreign trade partners' delight, was to dismantle the cabal of business, bureaucracy and LDP faction bosses which engineered Japan's post-war economic expansion, but commanded decreasing respect among its own electorate. The LDP in particular was making itself increasingly unpopular with a series of corruption scandals, which emphasised the gap between power brokers and average citizens, just at the time when the citizens were feeling the onset of what became the worst recession in 60 years.

But the newcomers were weakened by inexperience and internal bickering among their disparate coalitions. Thus, a chastened LDP returned in mid-1994, in an extraordinary alliance with its traditional enemy, the left-wing Social Democratic party. Last autumn's general election enabled the LDP to form a minority government under Mr Ryutaro Hashimoto, prime minister. Against it stands a fragmented and disorganised opposition. So much for the new Japan.

And yet, beneath the appearance of having turned full circle, Japanese politics has undergone significant change during the LDP's fall and recovery. The old LDP faction structure, much criticised for dominating policy with little regard to the electorate's aspirations, has become slightly more open and a younger generation is

beginning to assert itself.

Evidence of these changes is visible in a number of subtle differences in the way in which politicians operate. First, money. Faction leaders' ability to extract cash from companies and dole it out to their minions was the main instrument of political power for much of the post-war period. While good for stability, this stifled political debate and opened the way to corruption on a spectacular scale. The system started to demonstrate its imperfections when Mr Kakuei Tanaka, the late former prime minister and master of money politics, nearly landed in prison for accepting bribes, only escaping sentence by dying in 1993.

A year later, new curbs on political funding took effect in an attempt to purify politics. To compensate, political parties were entitled to a state subsidy. More than half of the leading parties' funds now come, for the first time, from the state. Significantly, that cash goes to party headquarters, rather than to faction bosses.

Second, electoral rules. Japan used to have a unique multi-seat constituency system. One district would return up to six members of parliament, several of which would come from different factions of the LDP. Three years ago, the system was changed to a continental European-style mixture of single-seat constituencies and proportional representation. The norm now is for the LDP to field one candidate, instead of several, per constituency; another blow to factions' power.

The new electoral system has weakened another old structure, the LDP's *zoku* or industrial sector lobby groups. As well as being divided into five factions, the LDP runs a number of *zoku*, whose job it is to co-ordinate policy with the businesses and government ministries involved in that sector, a feature of the traditional iron triangle of politics, business and bureaucracy.

Thus, an old style multi-seat district chose several *zoku-gin* – industry tribesmen – from, say, telecommunications, construction and health. Mr Hashimoto, as head of the health and welfare *zoku*, for example, was and still is counted on to influence the finance ministry in Tokyo to allocate a



Hashimoto: expected to influence the finance ministry to allocate a generous budget for health care in his home town

generous budget for health care in his home town. Now, *zoku* generalists are more electable than specialists.

There is, as yet, only a little evidence that politicians really feel less at the beck and call of faction leaders. One small example is how Mr Taku Yamazaki, a rising star in the LDP – where he is head of policy – has openly criticised his faction boss's calls for case-by-case parliamentary co-operation between the LDP and New Frontier party, the main opposition group.

A further sign of change is the emergence of a more competitive political opposition than the one that existed before the LDP's electoral shock in 1993. Until then, the main opposition group was the Japan Socialist party, which made itself unelectable by pursuing extreme policies such as support for the regime in North Korea or opposition to the security pact with the US.

Now the SDP, with only 15 seats in the 500-seat lower house of parliament, is even less of a force to be reckoned with. The new opposition is chiefly composed of two moderate parties. There is the NFP, under Mr Ichiro Ozawa, a former rising star of the LDP who triggered the 1993 upheaval by leading a defection from his old party, plus the Democratic party, led by Mr Naoto Kan, an aggressive young operator who won fame as former health minister by exposing his health ministry's part in distributing Aids-infected blood to haemophiliacs.

While internally divided over policy and tactics, the

INTERNATIONAL TRADE • by Michio Nakamoto

Common goal with US

US trade officials and Miti mandarins seek deregulation and investment in Japan

Four years ago, the US government managed to convince a reluctant Japan to embark on a dialogue aimed at using numerical targets to pry open Japan's markets to foreign goods and services.

The agreement to hold the consultations, arranged between US President Bill Clinton and Mr Kiichi Miyazawa, the then Japanese prime minister, created a period of strained relations during which Japanese trade officials accused their US counterparts of trying to "manage" trade.

Last month, with hardly a whimper of protest, the Japanese government once again agreed to a new framework for bilateral discussions with the US over new but similar issues. Given the importance of the US-Japan relationship, and the size of trade between the two countries, it is only natural that the two sides should hold such consultations. What is more, the new framework does not include the abhorred numerical targets for opening up Japan's markets or reducing its trade surplus.

But the seeming willingness with which Japan signed up to the bilateral agreement reflects the changed circumstances the country faces as the economy enters a period of more modest growth than it has known for most of its post-war history.

The difficulty the country has had in climbing out of its latest recession has reinforced the feeling that Japan faces slower economic growth ahead and convinced leading Japanese politicians and bureaucrats that to ensure the economic well-being of the country, they need to restructure the domestic economy through deregulation and other means, much more radically and at a much faster pace than in the past.



Clinton and Miyazawa: their agreement set the stage for a period of strained relations

That need has been given added force by the move overseas of Japanese manufacturing in the past several years. Driven by the damaging impact of trade friction and wild exchange rate fluctuations, Japanese companies have shifted a significant proportion of their activities outside the country to manufacture products, wherever they deem best, in a global context.

The ratio of overseas to domestic manufacturing for Japanese manufacturers, at 9.1 per cent in 1995, is not as high as it is for US or German manufacturers, at 26 per cent and 23 per cent respectively. Nevertheless, the ratio has tripled from 3 per cent in 1985, according to statistics from the Ministry of International Trade and Industry (Miti).

What is more, the ratio of outward to inward foreign direct investment in Japan is much higher than it is in most industrialised countries, points out Mr Hideyuki Urata, assistant director of the International Trade Research Office at Miti. The ratio for Japan was 13.6 per cent in 1994 compared with 1.3 per cent for Germany and 1.2 per cent for the US. That indicates that Japan is less attractive as a country to invest in, he notes.

Japan has also been less successful in attracting foreign R&D funds while the country's high corporate tax rates has led to a huge gap between the pre-tax and after-tax profitability of foreign companies.

As a result, perhaps to

their own surprise, the mandarins at Miti and elsewhere have come to share a common goal with trade officials in the US in promoting deregulation and investment in Japan.

The annual trade white paper, which sums up Miti's view of the state of affairs regarding the trading environment for Japan, reflects that preoccupation. "The focus (of this year's white paper) was on internal reforms rather than on external relations," says Mr Urata.

A spreading public consensus that Japan needs to reform its markets has led Miti officials to spend a good deal more of their time these days wondering how to make Japan a more attractive place for investment by Japanese as well as foreign companies.

"In order for Japan to continue to be an advanced industrial country, it has to carry out economic structural reforms," Mr Urata says.

In addition to having high corporate taxes and high personnel and other costs, the country has lagged other industrialised countries in basic research, he notes.

Compared with a total 3,447 applied for by US universities in 1994, just 124 patents were filed by Japanese universities. This is an issue that merits serious attention if Japan is going to nurture the kind of new high technology businesses that have supported economic growth in the US and elsewhere, Mr Urata points out for them.

FOREIGN POLICY • by Gillian Tett

Newly independent line

Internal political reform may be the key to Japan's future role on the world stage

This summer a pile of rice is sitting in Japanese warehouses which provides an intriguing hint of policy change.

In recent months a succession of western governments, including the US, have quietly pressured Tokyo to donate the rice to North Korea's starving population.

But so far Tokyo has refused. And although diplomats think that Japan may eventually back down, this is unlikely to occur unless Tokyo wins some domestically important compromise, such as permission for Japanese spouses in North Korea to visit Japan.

The incident, though tiny, is symbolic. During the past 50 years, Japan has largely followed the US lead on security and other foreign policy-related matters. But six years after the end of the cold war, there are signs that Japan is starting to rethink its policy – both towards the US, and other regional players.

This movement is neither rapid nor coherent. For as Ms Yoshiko Hatano, a former Japanese diplomat at the United Nations admits, the hallmark of Japan's foreign policy is that the government remains nervous of running ahead of the domestic consensus. "Policy here is very dependent on public opinion and politics," says Mr Hatano.

But in some areas – such as the rice pile – Japan is starting to take a newly independent line. As one Australian diplomat says: "Japan is moving towards a

definition of distinct Japanese interest, as opposed to a US, western or Asian interest."

One sign of this is already emerging in the all-important US-Japan axis. In contrast to earlier years, trade relations between the two countries have been relatively quiet of late although the US has complained about the recent surge in Japanese exports, these protests have not had the bitter edge of previous years.

But what has stirred debate has been another issue: the US-Japan security alliance. Since the second world war, Japan has eschewed any military role, as atonement for its aggression earlier this century. Instead, the US security umbrella has sheltered it. And Washington was generally happy to provide this commitment to ensure that Japan remained a bulwark against any Communist threat. But both sides now accept that the end of the cold war means that it is time to reconsider this arrangement, so they recently launched the first full review of the alliance for some 20 years.

These discussions are unlikely to lead to any dramatic reduction in the US presence in Japan; senior US military officials have stressed that they remain committed to maintaining their 47,000 troops in Japan. But an interim joint report from the discussions in June proposed that Japan should give substantially greater support than it is presently committed to provide to the US in the event of an Asian conflict. These proposals are due to be considered by the Japanese parliament in the autumn.

The suggestion is very controversial for Japan,

because it implicitly challenges its pacifist constitution. This bans the use of so-called collective defence, or the use of force against an attack on a partner. Japan has been gradually tiptoeing towards playing a greater military role overseas – it has recently contributed to UN peacekeeping forces in areas ranging from Cambodia to the Middle East. But taking part in a military attack would be a bold new departure.

However, the US axis is not the only relationship provoking reflection. China, for example, is currently absorbing considerable Japanese diplomatic effort. It has reacted to the latest US-Japan talks with predictable unease. Although relations between China and Japan have cooled markedly in recent years, Japanese officials are now making pains to build closer ties again. Mr Hiroshi Mitsuoka, for example, made a point of visiting Beijing this year on his way back from the G8 meeting in Denver in June.

And as Japan eyes the region, it is also re-examining its ties with its giant northern neighbour, Russia. Relations between Moscow and Tokyo have remained distinctly frosty since the end of the cold war because of a long-running dispute over four islands off the north of Japan, known variously as the Northern Territories in Japan, and Southern Kuriles in Russia. The islands, which were seized by Russia in the closing days of the second world war, are claimed by Japan.

Until last year, Japan insisted that it could not develop closer ties until the dispute was resolved. However, the stance has recently changed: although there is no sign of any resolution of

the argument over the islands, Japan has now agreed to set aside the issue while it develops closer economic ties with Moscow.

The consequence has been growing economic ties in the Russian far east, and a flurry of official visits: a Russian naval vessel, for example, recently docked in Japan, in the first such visit for a century. A formal meeting is now planned between Mr Ryutaro Hashimoto, the Japanese prime minister, and Mr Boris Yeltsin, the Russian leader, this autumn.

On the broader world stage, there are also signs of change. Tokyo is currently campaigning to be given a permanent seat on the UN Security Council. This is unlikely to happen for several years. However, Tokyo's confidence over the issue was greatly boosted last autumn when it beat India in an election for the Asian seat with a greater than expected margin.

However, as Japan lobbies for a greater UN role, one crucial question remains: whether the country yet has the type of political infrastructure that could allow it to take the rapid policy decisions needed in a crisis?

Some other G7 countries certainly have reservations: the Japanese government's reaction to the Japanese hostage crisis in Peru earlier this year, for example, has been criticised for being excessively weak and vague, not least because of the slow process of decision-making.

The Japanese government itself insists that this criticism is unfair. But valid or not, it suggests that the real key to Japan playing a more assertive role on the world stage may now lie less with its diplomats and more with the vexed issue of internal political reform.

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IV JAPAN Industry

CAR MANUFACTURING • by Michio Nakamoto

Renewed vitality could prove to be short-lived

The industry may now have to cope with a possible slump in the domestic market

Japanese streets have become much more colourful in the past few years, with bright green vans and yellow four-wheel-drive vehicles speeding alongside the black limousines and white family saloons that have long dominated the country's highways.

The more colourful traffic in Japan owes something to the growing presence of imported cars, particularly from Europe, which have caught on among independent-minded consumers eager to stand out from the crowd.

But it also reflects how far Japanese carmakers themselves have come in responding to one of the most significant changes in the domestic market in recent years.

After several difficult years which caught them out of sync with their main customers in the home market, Japanese carmakers are again on the offensive.

Last year, total vehicle sales in Japan rose 5.6 per cent to 7.28m units as Japanese companies introduced one new model after another

to whet consumers' appetites.

Mr Enda Clarke, industry analyst at Dresdner Kleinwort Benson, figures that no fewer than 28 new vehicles, of which 12 were totally new cars, were launched in the Japanese market in calendar 1996 alone.

Meanwhile, exports, which had been battered by a strong yen and had fallen for a decade, rose 6.6 per cent in the year to March, as the yen's value dropped sharply against key currencies, particularly the dollar.

Against this environment, and in spite of a fire at one of its key suppliers, Toyota maintained its position as Japan's biggest profit earner among non-financial companies for the ninth consecutive year, according to Wako Research Institute of Economics, an independent think tank.

There is no question that the industry owes much of its turnaround to the windfall from the yen's sudden depreciation, which has boosted overseas profits substantially. Carmakers were also helped by a one-off surge in domestic demand due to an increase in purchase tax this spring, which encouraged many people to buy big-ticket items such as vehicles before the increase came into effect in April.

But it is also to the credit of Japan's leading carmakers that in the past few years they have been able to slash costs and introduce a large number of new models better suited to market needs while at the same time expanding their overseas operations more aggressively than ever before.

Mr Clarke calculates that 11 Japanese vehicle makers cut costs by a total ¥570.1bn in fiscal 1996, ¥568.4bn in 1995 and a further ¥392.1bn last year. These cost-cutting exercises have largely involved standardising components, shortening product development times and raising productivity at the factory.

As a result, Japanese carmakers can now introduce new models into the market in as little as 15 months and at costs 20 per cent lower than previous models, he points out. That compares with an average of 30 months' development time for western competitors, many of which spend more than double the cost of their more efficient Japanese rivals to develop vehicles, Mr Clarke notes.

The turnaround has not been even. While all the Japanese carmakers have implemented cost cuts, speeded up development times and brought out more recreational vehicles, there is a wide divergence in the for-

tunes of the leaders and the laggards.

Honda, which has been the star of the industry for the past few years, and Toyota, have charged ahead, sometimes with the support of massive incentives in the latter's case. Nissan, Mitsubishi and Mazda, on the other hand, have put in less stellar performances, due to their lack of appealing models in the recreational vehicle (RV) category.

As the impact of the purchase tax increase is felt, and as demand in overseas markets, particularly the US, begins to slow down, the year ahead will test the ability of the two leaders to maintain their momentum - and of their less successful competitors to make up for lost time.

As for overseas operations, despite an expected slowdown in the US and moderate growth in Europe, the likelihood that the yen will remain near current levels of ¥115 to the dollar, against a break-even rate of about ¥100 to the dollar, plus growing demand for Japanese RVs, are expected to sustain firm contributions from overseas sales. The question is how the industry will cope with a possible slump in the domestic market. Domestic sales have already fallen 15 per cent in April and 11 per cent in May.

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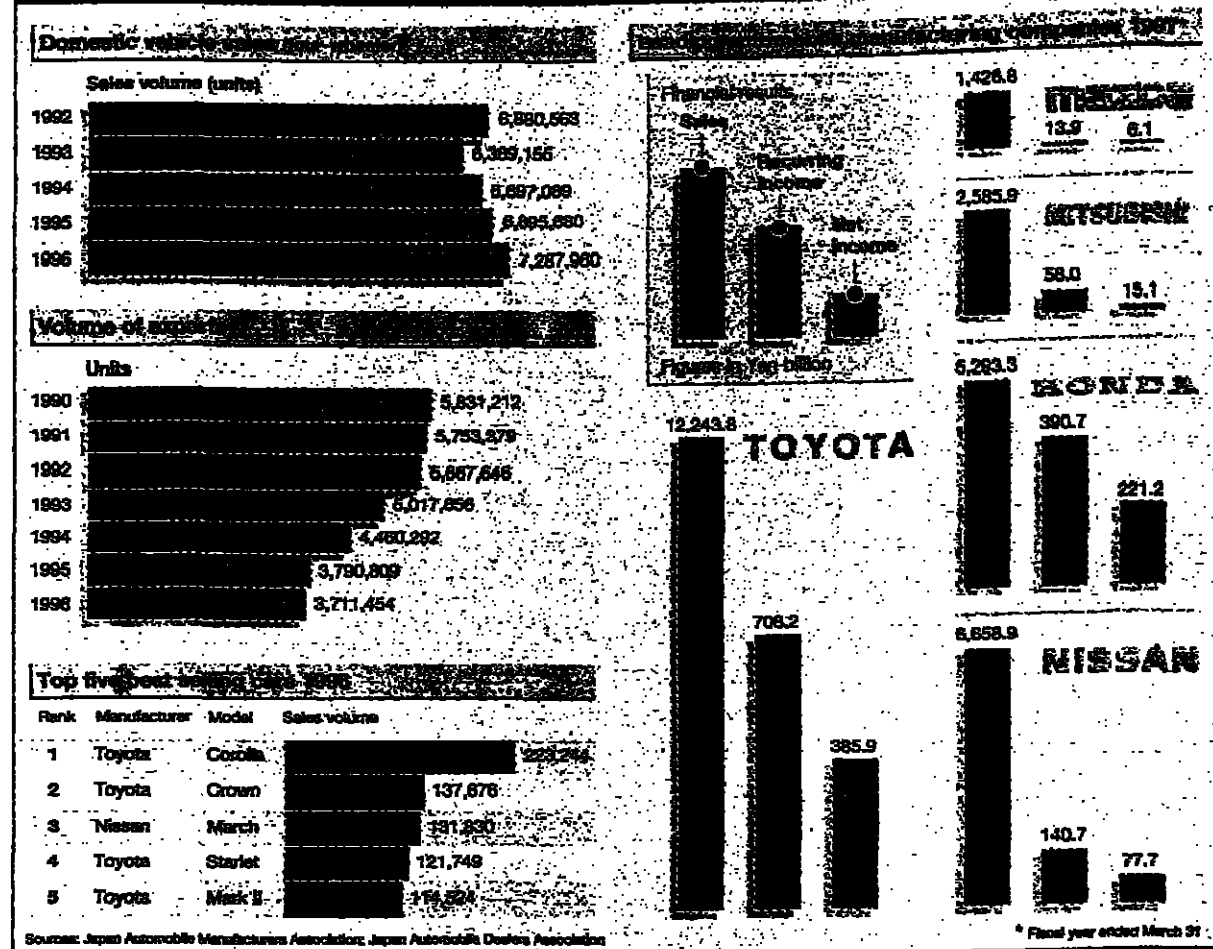
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Having launched 11 new models last year, Toyota plans to build on its domes-

The vehicle industry



The main strategy whereby Japanese carmakers intend to brush aside the dampening effect of the higher purchase tax is to introduce a wide range of new models, most of which will be RVs.

Having launched 11 new models last year, Toyota plans to build on its domes-

tic dominance with a similar number of new models, of which a fair proportion are likely to be RVs. Nissan is launching eight new models, including four station wagons, to reassert its diminishing status as the number two maker in Japan. Mitsubishi and Mazda likewise will release new RVs.

The concern is that by introducing a large number of new models into a sluggish market, the car companies risk an oversupply, notes Mr Stephen Volkman, industry analyst at Morgan Stanley in Tokyo, in a recent report. If that happens, margins are likely to come under pressure as manufacturers

pile up incentives to move their products. Those companies which fail to meet their targets could face high levels of inventory.

Under such a scenario, Japanese carmakers' renewed vitality in the home market could prove to be somewhat more short-lived than they hope.

DEREGULATION • by Bethan Hutton

Welcomed by consumers

Many services and commodities have become significantly cheaper

One of the interesting paradoxes of Japanese society is that while Japanese officialdom, and to a lesser extent the business world, can be notoriously resistant to change, Japanese consumers adopt new products and services faster than almost anywhere in the world. Those two tendencies are coming head-to-head in the current bout of deregulation fervour.

Progress in industrial deregulation has been slow, and the level of petty regulation can still seem mind-boggling to outsiders, but the situation is changing at an increasing pace.

Late last year, the head of economics at the Organisation for Economic Co-operation and Development said that deregulation of five key sectors of Japanese industry could boost the country's economic growth by 6 percentage points over the next few years. The five sectors he named were electricity,

airlines, trucking, telecommunications and retail distribution.

In fact, deregulation is under way to some extent in all those sectors, and a great many more. The Hashimoto government has published lists of nearly 3,000 planned deregulatory measures, in areas ranging from construction standards to employment agencies, and car insurance rates to non-prescription medicine sales, as well as the much-trumpeted "Big Bang" in financial services. Some of these are just minor enhancements of measures already planned or implemented, but many are big leaps forward.

When the barriers are lifted, change can happen seemingly overnight. One of the most visible effects of recent deregulation in Japan can be seen in the telecoms industry. In particular mobile phones, five years ago, when mobile phones were common enough to be seen as nuisances rather than necessities in the UK, they were still a rare sight on the streets of Tokyo.

Today, every pocket or handbag seems to conceal a phone, whether it belongs to

a banker or a schoolgirl. The key in this instance was a combination of two deregulatory measures in 1994, allowing consumers to buy rather than lease their mobile phones, and allowing new service providers into the market. The result was a leap from 1.25m mobile phones in use in 1991, to 28.2m in June this year. The market penetration of mobile phones now stands at more than 22 per cent - the fourth-highest in the world.

The example of mobile phones is popular with supporters of deregulation for good reason: the new market, with attendant jobs and cash flow, has effectively come from nowhere. Rather than taking business away from non-mobile phones, the wider availability of mobile phones has meant people have made more calls overall, although public payphone use has declined somewhat. The next step is deregulation of fixed-line telecoms, which will be less likely to create winners on all sides.

The Japanese market has been artificially divided between companies offering local, long-distance or inter-

national services. NTT, the semi-privatised giant, is allowed to provide local and long-distance services. But with the planned deregulation, companies currently confined to offering just one type of service will be able to offer all three, while NTT is to be broken up into several smaller companies which will continue to dominate their respective markets.

Many of the smaller companies are already planning mergers or alliances with companies serving other sectors, because the general view is that universal service providers will stand the best chance of survival in the newly deregulated environment.

The arrival of experienced foreign competitors on the field will add to the tension.

Overseas pressure has long played a key role in pushing the Japanese government towards deregulation. The non-life insurance market is a good example of this.

After years of pressure from US insurers, Japan last year submitted, agreeing to give insurers greater freedom to set their own rates. Car insurance premiums, for example, will be able to vary much more widely depending on the customer's age, sex, experience, location and so on, and individual insurers will be able to use their own underwriting calculations, rather than using risk ratings set by a central body.

Rates for many types of non-life insurance have been almost uniform across the industry, and the lack of competition has led to stagnation. The new rules, together with the entry of more overseas insurers into the market, should shake up Japan's sleepy insurers, and provide significant savings for consumers.

The effects of deregulation are already being felt throughout the Japanese economy, and are largely welcomed by consumers. Many commodities and services have become significantly cheaper because of deregulation leading to increased competition; among them petrol, telephone calls and whisky.

All the main political parties are officially pro-deregulation. That is not to say, however, that the traditional attachment to regulations which safeguard social stability has been completely swept away.

So far the deregulatory process has led to gain, but not much pain for Japanese society. But there will come a time in the near future when the harsher effects of deregulation will become apparent: job losses are inevitable in some of the most cosseted industries, and some Japanese companies will undoubtedly be bought out by foreign competitors. How those events are managed will determine whether public support for deregulation will continue down the long road ahead.

RETAIL INDUSTRY • by Gwen Robinson

Reforms squeeze sector

Convenience store chains and foreign stores are benefiting from deregulation

The government's push for deregulation is squeezing Japan's fiercely competitive retail industry, which has been struggling with weak consumer sentiment and falling sales since the end of the big-spending "bubble economy" era of the late 1980s.

Just as consumer confidence appeared to be recovering this year, retailers were hit by the increase on April 1 in sales tax from 3 to 5 per cent. Nationwide department store sales plunged an annual 14 per cent in April and fell a further 5.1 per cent in May.

Real consumer spending, meanwhile - measured through the government's monthly household spending survey - fell 2.2 per cent in May, far exceeding expectations.

Retail analysts dismiss the longer term impact of the sales tax increase, and compare the currently dismal trends to those in 1989, when the sales tax was introduced. The truly daunting challenges for retailers in the coming years, they say, stem from the government's ambitious reform programme and the rise of discounters to meet growing consumer demand for better value.

Both factors have paved the way for a steady inflow of foreign retailers and set the stage for intensifying competition.

Leading the way has been the reform of the Large-Scale Retail Store law, which previously presented daunting obstacles for large-scale retailers wanting to establish new stores in areas where there were existing shops. The law still requires anyone planning to open a shop of more than 500 sq m to gain permission from local-government committees in the area.

Other reforms have led to the steady erosion of traditional distribution methods and the breakdown of rigid relationships between shopping centre developers, department stores and specialty shops. They have also triggered new growth in retail outlets across almost every category, from shopping centres to convenience stores.

The losers, say analysts, are likely to be small shops, particularly the "mom-and-pop" corner stores being shoved aside by new growth in small supermarkets and convenience store chains. Medium-size supermarkets and general merchandising stores are also suffering, caught in the squeeze between larger, more efficient operators and increasingly competitive convenience stores.

In the developing deregulated environment, convenience store chains are among the winners. As one

of the few retail sectors to show continued profit and sales growth in April and May, they were little affected by the sales tax increase and continue to steadily expand their networks throughout Japan.

In addition, recent reforms have enabled them to expand their range of products and services to include direct sales of package overseas tours to consumers and, soon, sales of over-the-counter pharmaceuticals.

Deregulation is also benefiting foreign retailers, who are showing more interest now than ever before in Japan. Among the recent success stories is Tiffany's, of the US, Toys R Us, the US discount toy retailer, and clothing empires The Gap and Eddie Bauer. Carrefour, the French supermarket giant, is planning its entry into the Japanese supermarket industry by 2000.

Many observers see the ultimate test for foreign penetration of Japanese shopping culture, however, as the quest to build and operate massive shopping complexes and fill them with foreign, as well as Japanese, retailers. With this goal in mind, two US groups are currently trying to negotiate their way through a maze of local and national government regulations.

In the past year, US companies have stepped up their efforts to bring American-style malls and foreign retailers to Japan, despite early signs of bureaucratic opposition. The moves come

at a time of rapid deregulation in Japan's retailing industry.

One of the first and most ambitious entrants to large-scale retailing in Japan is American Malls International (AMI), an offshoot of Western Development Corporation, a leading US developer of retail and office complexes. After studying the Japanese market for two years, AMI last year established a Japanese subsidiary to oversee plans to build a string of multi-billion-dollar malls called "retail theme parks" throughout Japan.

AMI selected a site for its first project in the town of Morioka, about 35km north of Tokyo, and began negotiating with local landowners to purchase about 800,000 sq m for construction of what would be one of the world's largest shopping malls. At the same time, the company drew up plans for a similar large-scale mall in the port city of Kobe, and began looking at candidate sites for six other large-scale malls in different locations in Japan.

In April, however, AMI ran into bureaucratic obstacles when Japan's ministry of agriculture, forestry and fisheries said it would oppose AMI's plan because it violated a law designating the site as a prime farming zone for purposes of producing vital crops. Much of the Morioka site is not under cultivation, but the ministry has refused to change the land's special status.

Thousands of designated farming fields easily won

government approval for conversion into golf courses and resorts during the speculative "bubble economy" era of the late 1980s.

Critics say the government is using the law to block the large-scale entry of foreign retailers, and warn that continued refusal could trigger a trade dispute. The government has not commented on AMI's project but the company has signalled its intention to continue negotiations with local authorities and landowners, and deal with higher-level opposition when the time comes.

"The mall development process is difficult anywhere in the world," said Mr Herbert Miller, AMI chairman. "What we've learned in Japan is to be patient, work with the communities... and try to find solutions which meet the needs of both local and national authorities."

Meanwhile MGS Japan, a partnership between WPI Koll, a large US shopping complex developer, and Fumai Consulting, a Japanese marketing consultancy, is planning to develop a 300,000 sq m mall in Osaka. MGS has also announced plans to develop four other large American-style malls throughout the country by the year 2003. Large Osaka-based retailers have expressed opposition to the plan.

In the long term, analysts say, the entry of large American-style mall developers to Japan is inevitable and will revolutionise traditional retailing concepts.

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SURVIVAL GUIDE • by Gwen Robinson and Motoko Kondo

Tranquillity is only an hour away

Advice for visitors on where to find the best sushi, shops, massages, luggage collection – and temples

For casual visitors to Tokyo, the hunt for good, affordable sushi can be fraught with dangers – mainly to the wallet rather than the stomach. In a sushi-loving nation, inferior sushi bars tend to have difficulty staying in business. First-timers are advised to avoid the simple-looking but astronomically expensive sushi restaurants dotted throughout the Ginza district. At the novelty end of the scale, you can eat your fill at "kaiten" sushi shops, where the goods move around on a conveyor belt, for little more than about ¥1,500-¥2,000 a head. But for lingering in more congenial surroundings and ordering piece by piece, as many Japanese do, the Sushisai chain provides good quality at reasonable prices in several locations in Tokyo.

The flagship restaurants are in the Ginza and the business and entertainment district of Akasaka. There is also a branch in the nightlife district of Roppongi. They all provide photo menus if language is a problem. Alternatively, wander down to the Tsukiji fish market.

Sushisai: Akasaka branch, 3-11-14 Akasaka, Minato-ku, Tokyo. Tel. (03) 3533-9503. Ginza Branch: No. 7 Kanai Bldg., 2-13 Ginza 8-chome, Chuo-ku. Tel. (03) 3572-4770. Edogin: 4-5-1 Tsukiji, Chuo-ku. Tel. (03) 3545-4401. Edokozushi: Main store: 3-22-5 Uchikanda, Chiyoda-ku, Tokyo. Tel. (03) 3258-1217.

The perfect massage: The Japanese have perfected the art of therapeutic massage, known as "shiatsu", and have now condensed it for busy people into services that provide quick 10 or 15-minute massages of the back, feet, hands or head. Many also offer longer treat-

ments and even provide acupuncture services.

Little English is spoken at the clinics, although some of those listed below in main shopping areas such as the Ginza and Shibuya are more accustomed to dealing with foreigners who can only nod, smile or grimace. It is advisable, however, to ask a Japanese-speaking person to make a reservation.

Ginza Seitai-in (Tokiwa Building, 5/F, 1-6-6 Yurakucho, Chiyoda-ku; tel. (03) 5612-3133) is a small place conveniently located in Yurakucho, near the Ginza. Massense Shinichi Oshima and his assistant offer massages from ¥1,000 for 10 minutes and ¥2,800 for 30 minutes.

In the shopping district of Shibuya, **Itoh Shintaro Massage Centre** offers 15-minute massages for ¥1,500. A one-hour massage costs ¥5,500.

Tamomin, in Akasaka (3-21-15 Akasaka, Minato-ku; tel. (03) 3539-5517), offers special 30-minute leg massages and mud-pack treatments for ¥4,000. The legs are massaged for 15 minutes and then mud from mineral springs is applied to rejuvenate tired, swollen legs. A 10-minute massage of the neck and shoulders is ¥1,050. **Flee to the mountains:** Peace and tranquillity can be found little more than an hour or two from Tokyo in the form of hiking paths around shrines and temples on mountain tops.

If time is limited, take the 55-minute train ride on the Yokosuka line out of Shinjuku to Kamakura, one of Japan's ancient capitals. Alight at Kita-Kamakura, the stop before Kamakura, and do the 90-minute walk to the famous Big Buddha, taking in temples and splendid old buildings on the way.

If you have a free weekend, head for Mount Mitake, a 90-minute drive west of central Tokyo, or a two-hour trip by train and bus to the cable car that takes you up the steep ascent. The mountain has been considered holy since ancient times and on the summit is the Mitake



A short drive from Tokyo: the Mitake Shrine on Mount Mitake

Shrine. According to legend, the original shrine dates back to 80BC. It was rebuilt in the Edo period (1600-1868) and today attracts hikers and sightseers who come either for a day trip or to stay overnight in one of dozens of traditional inns on the mountain top that originally catered to weary pilgrims.

A simple, friendly family-run inn on Mount Mitake is Komadon Sanso, which provides accommodation in tatami rooms with excellent views over the valley for just ¥4,500 per person per night. An excellent Japanese dinner served in the inn's traditional dining room costs an extra ¥2,000 per person and breakfast, ¥1,000. For more information and reservations, call: (0328) 79-8472.

Paradise for shoppers: With its grand department stores and myriad specialty retailers, Tokyo is a consumer's paradise. But finding the right presents at the right price can be daunting for shoppers with limited time.

One way to combine sightseeing and find interesting souvenirs and gifts is to hop on the train to the old northeastern district of Asakusa. There, the long entrance path to the famous Asakusa Kannon temple is lined with small shops selling everything from handcrafted wooden toys to traditional cotton "yukatta" kimono and delicate hair ornaments. Alternatively, head for the

fashionable inner-city shopping district of Aoyama and go to Oriental Bazaar (9-13 Jingumae 5-chome, Shibuya-ku; tel. (03) 3400-3933), on the broad main street known as Omotesando. There you'll find three floors of arts and crafts, antiques, traditional houseware and souvenirs ranging from ¥200 up. For last-minute shoppers, there's a branch at Narita Airport.

For old maps, books and woodblock prints, explore the Jimbocho district and start at Ohya-shobo, one of Tokyo's largest purveyors of old prints, maps and books, at 1-1 Kanda-Jimbocho, Chiyoda-ku; tel. 32910062.

Bags and baggage: Smooth departures can be greatly enhanced by the Sky Porter service, which will collect suitcases and packages from any location in Japan and deliver them to any international airport in Japan, where you can collect them on your way to check-in. In Tokyo and its surrounding areas, reservations must be made at least two days in advance, with pick-ups taking place the day before your departure. The costs per package or case range from ¥2,000 up.

Similar prices and service apply for arriving visitors who can leave their bags at the Sky Porter desk in the terminal lobby and receive them at home within 24 hours. Call (03) 3590-1919 for more information.

EDUCATION • by Charles Smith

Still groping for a system

A cautious, step-by-step approach to the reform process has been adopted

Part of the price Japan has had to pay for catching up with the West is the need to overhaul and modernise some of the ideas and institutions which helped it to achieve its present level of affluence.

For the past 10 years it has been agreed among scholars, politicians and even Ministry of Education officials that education is one such area.

The knowledge-oriented, egalitarian school system that Japan developed in the 1950s and 1960s was well suited to maximising economic growth, suggests Dr Ikuo Amano, Dean of the Graduate School of Education at the University of Tokyo (Toda). But the system probably does not suit a mature society where there is an increasing need to nurture individual initiative and self-expression.

Reforming the education system, however, is clearly a tall order. The problems include the difficulty of breaking with more than a century of tight control by the central government and a serious lack of consensus about the effects of changes in a well-learned system.

Given these uncertainties it is not surprising that officials in the planning division of the Ministry of Education have adopted a cautious, step-by-step approach to the reform process.

A series of reports issued over the past two years by the Central Council for Education (CCE), an advisory body to the ministry, has stressed the need to broaden the scope of high school and university exams so as to place more emphasis on "all-round" achievement by students. The government is also trying to modify a system of graduation-by-age which obliges all students to move through the school system at the same pace, regardless of ability.

Such changes, however,



Japan already boasts one of the world's most productive and efficient education systems

have run into strong opposition from conservative prefectural education boards who are in turn supported by the national teacher's union Nikkyoso.

In a recent interview with the Yomiuri Shimbun, a leading daily newspaper, Mr Akito Arima, CCE chairman, identified "society and teachers" as the main obstacles to building a more diversified school system.

Opponents of change can, and do, cite evidence that Japan already boasts one of the world's most efficient and productive education systems. A strictly-enforced uniform national education curriculum has produced a society which is officially claimed to be more than 98 per cent literate, despite the difficulty of a written language which combines Chinese characters with two national syllabic scripts.

Japanese children are also highly numerate, judging by the results of international tests which consistently rank Japan among the world's top four nations for secondary school maths ability.

Professor Kanji Nishio, an educational specialist at Tokyo University of Telecommunications, adds that the system has delivered quantity as well as quality. Some 98 per cent of children who complete the nine years of compulsory education enforced by the government go on to attend senior high school, and 43 per cent of senior high school graduates enter universities or two-year colleges.

ent system.

In order to enhance *gutei*, the report suggests teachers should encourage children to talk more and should avoid concentration on minute grammatical points when teaching English. Excessive attendance at *juku*, after-school cram-shops which help children to prepare for over-rigid university entrance exams, is cited as another undesirable source of pressure on teenagers.

The problems of Japan's present education system do not end at the point of high school graduation. Universities suffer from a lack of competition between institutions – and individual teachers – which results in students learning far less than at comparable universities in the US or Europe.

Under Japan's traditional lifetime employment system, inadequate university education was not a big problem, suggests Dr Amano of the University of Tokyo.

Companies recruited staff mainly on the strength of university affiliation, rather than by examination, and were content to hire generalists who could be moulded to suit company needs by in-house education programmes later in their careers.

The fading of the lifetime employment system in Japanese industry and the increasing need for individuals to make their own careers seems to have changed all this. Dr Amano suggests universities need to expand the range of study options they offer beyond a limited range of traditional faculties and introduce what he calls professional "sofas" in place of the traditional "chair" system where a single head of faculty is insulated from competition by peers or juniors.

Dr Amano claims that Tokyo University is already implementing reforms to enhance competition and broaden opportunities for students. While this may be so, it seems clear that at a national level, Japan is still groping for an education system that will meet the needs of an affluent but increasingly uncertain society.

INFORMATION TECHNOLOGY • by Michio Nakamoto

Lure of the superhighway

Industries are racing to adopt advanced IT – but will the investment pay?

Not so long ago, Japanese policy makers and academics warned that the country was falling deplorably behind the US in its adoption of advanced information technology.

The high cost of personal computers and online communications, a lack of familiarity with computers, and the complexities of the Japanese language all meant that Japan was trailing other countries in the race to build an information superhighway, concerned officials say.

But a big change has taken place in the past few years. The Japanese public has embraced personal computing and online communications with the same fervour that colour televisions and stereos were bought at an earlier stage in the country's economic development.

Space is being allocated in company offices, family sitting rooms and school classrooms throughout the country for the increasingly indispensable PC, modem and printer, while online service providers have mushroomed to meet surging demand.

Electronics retailers in Tokyo's Akihabara and elsewhere have opened specialised PC shops as consumers have rushed to buy the latest models, add to their software collections or upgrade their modems. As a result, PC shipments have risen from 1.95m units in 1990 to nearly 7m units last year, according to the Japan Electronic Industry Development Association which is forecasting a further increase in shipments to 8.8m units in the current fiscal year.

Last year, two-thirds of overall capital spending was related to information technology, points out Mr Akihiko Shinzaki, deputy director of the International division at the Japan Development Bank (JDB).

The number of internet users in Japan is also growing at a spectacular rate. Having risen from 1.8m in 1995 to 5.3m last year, the number is forecast to continue rising firmly to 10.8m this year and 31.95m by the year 2000, according to IDC, an information technology consulting company.

A study by the Ministry of Posts and Telecommunications showed that in fiscal 1996, 47 per cent of Japanese companies surveyed were already using e-mail and local area networks while nearly 67 per cent were using the internet.

"Things are very different from three years ago," points out Mr Tatsuzumi Furukawa, the executive in charge of multimedia and application software businesses at Fujitsu, one of Japan's leading IT companies. "In Japan, once people are convinced that something is efficient they adopt it very quickly," he says.

The urgency to adopt advanced information technology is common to many industries in Japan, Mr Furukawa notes. A growing awareness of the importance of using IT as a competitive tool has supported growth in Fujitsu's systems integration, services and support operations, and is expected to continue supporting robust growth in these businesses in future, he says.

Manufacturing companies, for example, are using IT to shorten product development times and raise their global competitiveness. Financial institutions, meanwhile, face a pressing need to make greater use of advanced IT to survive the "Big Bang" deregulation measures being implemented, while in distribution, the importance of reducing inventories is encouraging companies to adopt the latest IT systems.

In the car industry, where product development normally takes 24 months or more, Japan's leading vehicle makers are investing in advanced IT systems to connect suppliers, product designers, engineers, pro-

urement teams and manufacturing experts, and shorten product development times to as little as 15 months.

Leading Japanese electronics companies have been making use of information technology to support their global division of labour in which functions such as design, development, procurement and manufacturing are allocated to the most appropriate locations in the world and linked through wide area networks, notes Mr Shinzaki at the JDB.

Against this background, Japanese electronics companies have been honing their skills in systems integration, service, and support, where the battle for profits lies.

"It has become very difficult to differentiate between different hardware products, so it is necessary to combine the hardware with network systems, and software and services to provide value to the customer," notes Mr Furukawa.

The ability to offer customers a computer system that is not only efficient and reliable but also expandable, thereby keeping pace with the speed of change in business developments, will determine success in the business, Mr Furukawa says. In that respect, the demands of Japanese business users will drive the development of Japan's computer industry and its ability to offer world-class systems integration, support and services.

Fujitsu was able to gain knowledge in building a system that is state-of-the-art in terms of reliability, flexibility and expandability when it won an order from NTT Docomo, the fast-growing mobile communications group. The mobile phone operator needed a system that could handle the growth in demand both in terms of reliability and expandability.

There is no doubt that Japanese investment in information technology has been and will likely continue to be robust. Nevertheless, the use of IT in Japan still lags that in the US by two to three years, Mr Shinzaki

notes. For example, the number of host computers in Japan, at just over 734,000 units, as a ratio of gross national product totalling \$4,821bn, is far below the ratio in the US of 10m units against GNP of \$6,737bn, according to the Ministry of Posts and Telecommunications. When it comes to the number of host computers as a ratio of total population, Japan lags behind not just the US but Australia and Canada as well, the MPT notes.

Mr Furukawa emphasises that the high cost of using telecommunication networks in Japan is a big impediment to the greater use of IT. Although prices have come down significantly, "Japan's network is still very expensive and this is a crucial issue," he says.

Meanwhile, the beneficial impact of IT investment on productivity at Japanese companies has been less conspicuous than in the US.

Many Japanese companies in leading industries, such as electronics, have been able to raise productivity with the introduction of advanced IT systems. But the failure by most Japanese companies to combine investment in IT with restructuring measures – such as staff cuts or the adoption of new and more cost-efficient procurement channels – has kept returns on IT investment lower in Japan than in the US, points out Mr Shinzaki.

The high level of investment in IT itself could encourage such restructuring measures in future, Mr Shinzaki says. At the same time, greater competition from highly efficient foreign companies, particularly in service sectors such as distribution, could encourage Japanese companies to adopt measures to raise efficiency.

Given that Japanese investment in IT still lags that in the US by several years, it is the next few years that will provide a crucial guide as to whether the latest surge in IT investment by Japanese companies will really pay off.

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VI JAPAN Regional profiles

PROFILE Hokkaido

Struggling to rediscover its old pioneering spirit

In a country where the long arm – and deep pocket – of the state is central to many sectors of the economy, the island of Hokkaido has the distinction of being the region of Japan most dependent on public funds. The Japanese government is, rather belatedly, trying to wean industries off state subsidies and state control. Hokkaido will struggle more than most with this process.

Hokkaido is Japan's northernmost island, and formally became part of Japan only in 1869. Its image is of wide open spaces, virgin forests, and unspoiled nature. This sits uneasily with the role of the construction industry as a mainstay of the Hokkaido economy, along with agriculture and forestry.

"To tell the truth, construction is the big industry in Hokkaido, so as the central government

decreases funds to Hokkaido, it is affecting the economy," said a local official.

A minister for the development of Hokkaido sits in the cabinet, giving weight to the idea that Hokkaido is underdeveloped and providing official sanction – and funding – for endless infrastructure construction projects.

Environmentalists, and now many others, complain that this has been an excuse for construction companies (often with friendly ties to politicians and senior bureaucrats) to prosper by building roads, dams and resorts, and covering river banks and mountainsides in concrete, even where there is no obvious need.

Consequently, many Hokkaido residents, particularly the remnants of the island's indigenous Ainu people, would now welcome cuts in

government funding for that kind of development, despite the overall impact on the economy. As it happens, this coincides with a government looking to make budget cuts.

The future for the construction industry is uncertain, because private sector construction projects are unlikely to take up the slack left by reduced government investment. But if the role of construction and other public sector projects is set to decline, what can take their place in the local economy?

Hokkaido's manufacturing industry has always been weak, and the high-tech revolution has more or less passed it by. Its coal mines have closed, and it runs a persistent trade deficit with the rest of Japan because its shipments of foodstuffs and timber are outweighed by the

machinery and manufactured goods brought in from other parts of Japan.

Agriculture also has problems. Hokkaido grows some rice but it is better known for its dairy products, wheat and vegetables, particularly temperate-climate types such as potatoes and onions. Like farmers elsewhere in Japan, Hokkaido is suffering from the opening – albeit gradual and limited – of Japan's markets to overseas agricultural products.

"Since the Uruguay round four years ago, with the liberalisation of the market and also the decrease in government funds, farmers in Hokkaido have been anxious and worried about the future," says a senior official in the agriculture department of the Hokkaido local government. Misconceived

officially-sponsored agricultural improvement projects have also saddled many farmers in the region with substantial debts, and no prospect of rising incomes to repay them. This has led to interest in agricultural products with bigger margins, or ones where imports are at a disadvantage. Fresh milk, for example, is difficult to import because of its short shelf life, but Japan is not traditionally a milk-drinking nation so dairy processors have been developing new

vitamin-enriched, low-fat milk beverages to attract health-conscious consumers. But the high cost of domestic travel in Japan means that Hokkaido is often at a disadvantage when compared with overseas destinations which have longer flight times but cheaper air fares and hotels.

The balance could be shifted if current plans are realised for several new airlines which would offer cut-price flights between Hokkaido and key Japanese cities.

The local authorities have tried familiar tactics to boost the regional economy: business parks, encouragement of venture businesses, tax breaks and special deals for companies relocating from overseas or elsewhere in Japan.

None of this has met with great success. In fact, even Hokkaido's home-grown household names often transfer their head offices to Tokyo when they grow beyond a certain point.

The region would still like to develop a stronger manufacturing sector, but officials say that the new focus is on six likely growth areas for the next century: health and welfare, culture and leisure, support industries, information and telecommunications,

housing, and environment and recycling. More importantly, the overall emphasis is shifting to generating growth from within, rather than relying on external aid, particularly from the central government.

Hokkaido's isolated position, with not even a high-speed railway to link it to the bureaucratic hub of Tokyo, might be expected to increase its sense of detachment and self-reliance. But a reliance on direction from central government seems surprisingly engrained.

Hokkaido residents still lay claim to the pioneering spirit which drove their forebears to make a new home in Japan's remote north. A modern version of that spirit is needed now if Hokkaido is to move on from its dependent position.

Bethan Hutton

PROFILE Kansai region

Drive for place on global map

There has rarely been a time in recent history when the Kansai region, in west-central Japan, has figured so prominently in the national headlines as in the past few years.

Natural and man-made disasters, ranging from the Hanshin earthquake that devastated the city of Kobe in 1994 to an outbreak of food poisoning that killed several school children in Sakai city, and an oil spill off the coast of Fukui prefecture, have drawn the Japanese public's attention to Kansai in recent years.

But the naturally outgoing people of Kansai are trying to put their region in the international limelight for reasons of their own.

Kansai, which encompasses nine prefectures stretching from Fukui to the north-east to

Tokushima on the island of Shikoku, wants to break out from under the shadow of Tokyo to win international recognition in its own right.

With a gross regional product of \$832bn that ranks it above Canada and Spain in terms of the size of the economy, it is not surprising that Kansai people believe their region deserves wider recognition.

Kansai has Osaka as its central commercial city, the birthplace of many world-renowned companies ranging from Matsushita, the consumer electronics company, to Sumitomo, the trading company, and Nomura, the securities company.

To the north of Osaka is Kyoto, Japan's ancient capital which is also the home to innovative companies including

Nintendo, the video games maker, and Kyocera which has made its name in ceramics and other high technology products.

Nevertheless, more than 90 per cent of foreigners based in the Kansai region do not think the name Kansai is known outside Japan, according to a study by the Centre for Industrial Renovation of Kansai.

To rectify the situation, the Kansai public authorities and business community have taken up the challenge of transforming Kansai into a region that will not only continue to be a key base for Japan's economic growth but will also be recognised globally as an attractive, dynamic centre.

The desire to put Kansai firmly on the global map was a key factor behind the drive to build Kansai

International Airport, in the face of huge pressures, as its gateway to the rest of the world and a magnet for foreign visitors to the region.

The number of passengers on international flights to or from Osaka, the heart of the Kansai region, increased by 43 per cent in the airport's first year and a further 81 per cent in the year to September 1996. The region's share of all international passengers has risen from 15.6 per cent in 1993 to 22.2 per cent last year, according to the Centre for Industrial Renovation of Kansai.

The Kansai Science City was constructed as a way to attract the world's top scientists to the region and support research and development in advanced sciences and state-of-the-art technology. Many buildings have been

constructed, mainly in Osaka but also throughout the region, to house trade centres, convention halls, hotels and other facilities designed to make Kansai an attractive venue for globe-trotting businessmen as well as tourists. As a result, the number of international conventions held in the Kansai region has risen to exceed that in the Kanto region which includes Tokyo.

Kansai intends to build on this trend with further investments in infrastructure and by attracting internationally recognised events to the region.

The city of Osaka is the major shareholder in Universal Studios Japan, a huge theme park modelled on the Universal Studios park in Hollywood, that will be constructed on unused industrial land in western Osaka. The park, which is planned to open in 2001, is expected to generate revenues of more than ¥70bn in its first year, with the number of annual visitors reaching 8m.

The local community has also launched a massive campaign to win the nomination as Japan's candidate site for the 2008 Olympics.

Planned expansion of Kansai International Airport will also focus attention on the region and a new terminal building for Kyoto station will be the centre of discussion as a very modern element in a traditional city better known for its ancient temples. Such efforts on the part of the community will help significantly to boost recognition of the Kansai region not only in Japan but also overseas.

As the deregulation of markets and administrative reforms loosen Tokyo's influence and make Japan a less centralised country, Kansai with its vast economic resources and cultural heritage will enjoy further opportunities to shine.

Michiyo Nakamoto

PROFILE Kyushu

A model for the next century

The island of Kyushu, just off the southern tip of Honshu, Japan's largest island, is bustling with activity.

Having just hosted the annual meeting of the Asian Development Bank in May, the people of Kyushu are now turning their attention to the Pan Pacific Swim Meet in August and the World Track Finals in the autumn.

Fukuoka, Kyushu's largest city which hosted the ADB meeting as well as the Universiade or student Olympic Games two years ago, is in the middle of a construction rush that will see the creation of several new commercial and entertainment centres, an artificial island with residential and leisure facilities and one of Japan's largest yacht harbours.

Kitakyushu, to the north-east of the island, boasts its own Renaissance Project that aims to build the city into an international technology and commercial centre. Long an important shipping base, the city is updating its port facilities in an attempt to compete with Pusan, a stone's throw away in neighbouring South Korea, for the title of East Asia's hub port.

Kitakyushu is also building a new state-of-the-art airport on a landfill site which will be one of just four airports in Japan able to handle around-the-clock landings by jumbo jets when it opens in 2006.

In addition to the frenetic urban redevelopment, a network of highways has been built to cover the island of volcanoes and hot springs which spans an area the size of the Netherlands and has a gross domestic product equivalent to that of South Korea and Australia.

Michiyo Nakamoto

Numerous flights from neighbouring cities in Asia and beyond bring hundreds of thousands of business visitors and tourists to Kyushu. They visit theme parks such as the Euts Ten Bosch in Nagasaki, a replica of a Dutch city, or the Space World in Kitakyushu.

All this activity mirrors a distinct feeling among regional leaders that the 21st century belongs to Kyushu. Business leaders and bureaucrats alike are fond of telling visitors about the tremendous promise the island holds for economic growth in the years ahead.

That growth will be based on Kyushu's advantageous geographic location as the closest of Japan's four main islands to the rapidly growing economies of Asia, they say. Seoul is just over an hour's flight away, Shanghai, an hour and a half, and Hong Kong three hours.

Kyushu leaders believe that in order to take advantage of its proximity to Asia's growing economies, the region needs to improve its infrastructure and to publicise its potential as Asia's door into Japan, and Japan's gateway to the Asian continent.

Hence the rush to build convention halls, hotels and trade centres has been accompanied by energetic efforts to lure Asian events, such as the ADB meeting, to the island.

Kyushu is, indeed, well placed to take on this self-proclaimed role as Japan's link to Asia. As well as its geographic advantages, the island has been a centre of some of the high-tech industries which are fuelling growth in the most vibrant Asian economies, such as semiconductors.

Information technology and vehicles.

The island also hopes to benefit from a surge in visitors from neighbouring countries and has supported substantial investments in theme parks, hotel and leisure complexes and amusement parks.

Meanwhile, Mr Wataru Aso, the governor of Fukuoka prefecture, has made it a priority to encourage the emergence of venture businesses in the region and has debarred the prefectural government from venture capital from an initial ¥5bn to ¥10bn over 10 years.

Such venture companies are expected to spur the growth of new businesses that could become future engines of economic growth.

Kyushu needs these new outlets for its energies, to make up for the decline in mature industries which once supported the island's economy.

Nagasaki, famous for its hills and its Dutch heritage, was the cradle of Japan's shipbuilding industry where Mitsubishi Heavy Industries built its Nagasaki Shipyard and Machinery Works in 1868. Kitakyushu was the birthplace of Japan's steel industry in 1901.

Even the concentration of newer industries, such as cars and semiconductors, is increasingly threatened by the move of Japanese manufacturing to lower cost locations overseas, particularly in south-east Asia.

A dynamic Kyushu that can balance the need for economic development with the preservation of its natural beauty and laid-back culture, could serve as a model for the rest of Japan.

Michiyo Nakamoto



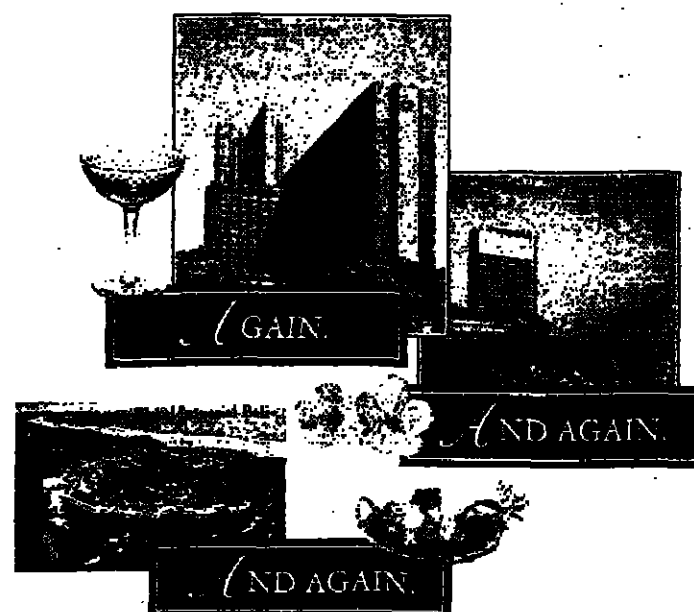
In Perfect Balance

According to the ancient Chinese philosophy of yin and yang, the universe is composed of opposing but interdependent forces. Interestingly, this philosophy resembles the concept of homeostasis, the natural balance that occurs within living organisms, including the harmony between antagonists and agonists that regulate vital functions. Thus, an important factor in the search for new medicines is developing compounds that work together with the body's own restorative and regenerative abilities. To lead healthy lives, we must seek balance with nature, with society, and within ourselves. As a leading pharmaceutical company, Takeda is striving to help people attain this balance.

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COMMODITIES AND AGRICULTURE

Germany's oil sales to start in August

By Peter Norman
in Bonn

The German government will probably begin selling its 7.3m tonne federal oil reserve in the first week of August, when it expects to accept the first tenders for the crude.

The Bonn economics ministry announced yesterday that it will offer the oil in blocks of about 450,000 cubic metres, which is equivalent to about one day's

national consumption or 388,350 tonnes.

The oil can be acquired by the tankful from the storage depot of Nord-West Oelleitungsgesellschaft near Wilhelmshaven, the north German deep water port, where the oil is stored in specially constructed underground caverns.

The federal reserve, which covers about 19 days' consumption, was assembled between 1973 and 1981 during the first and second oil crises, in line with an international

agreement obliging the industrialised member countries of the International Energy Agency to hold 90 days in stocks. The Bonn government has rejected IEA criticism of the planned sale.

Germany holds reserves totalling 118 days' consumption. It plans to raise DM400m (\$228.5m) from oil sales this year and DM500m and DM450m in 1998 and 1999, respectively, to cap borrowing and to help meet the budgetary costs of high unemployment.

The sales, signalled in last week's draft federal budget, will leave a reserve covering about 99 days' consumption, of which 80 days will be a strategic reserve held by the Erdölbevorratungsverband, an association of German oil companies, with the rest held as shorter-term stocks at refineries.

The ministry said the federal oil reserve was made up of 16 different types of oil that had been mixed in storage.

Heavy oils, with an average API

value of 30.5, account for 45 per cent of the reserve while the rest, with an average API of 35.5, comprise light and medium oils from the Gulf region, the North Sea and West Africa.

A typical average quality would comprise 50 per cent Iranian heavy, 25 per cent Arabian light and 25 per cent Kirkuk crude.

The tenders will be handled by the Erdölbevorratungsverband, which will act as agent for the government.

Tight supply lifts copper

MARKETS REPORT

By Kenneth Gooding
and Gary Mead

The London Metal Exchange three-month zinc price pushed through the \$1,500 a tonne level to a 6½-year high but copper claimed most of the attention because of a shortage of metal for nearby delivery.

The premium for copper for immediate delivery, compared with delivery in three months, jumped to \$240-\$250 a tonne from the \$130-\$140 seen on Friday.

Mr David King, LME chief executive, said he continued to watch the copper market closely but insisted that yesterday's ring trading was "totally orderly".

Traders expected copper market tightness to last another two weeks. However, the big premium for copper for immediate delivery was likely to suck metal into LME stocks. The exchange reported a 2,075 tonne rise yesterday but, at 141,200 tonnes, copper stocks remained at an historically low level.

Zinc was \$1,502 a tonne in late trading, up \$16. Traders suggested that producer selling would probably keep prices near the \$1,500 level, at least temporarily.

Forecasts of continued

mild weather for the all-important Brazilian coffee plantations helped ease the price for robusta coffee futures on the London International Financial Futures Exchange yesterday, where the September contract closed \$40 down at \$1,735 a tonne, the day's lowest point. It had earlier traded as high as \$1,785, but news of slackening demand was an additional factor behind the day's lacklustre mood.

Elsewhere on Liffe cocoa futures also finished lower, with total volume at just 2,100 lots. The benchmark September contract ended \$7 lower, at \$1,033 a tonne, which was also the day's highest point. Sterling's strength against other currencies, as well as selling by speculators were seen by traders as pushing the contract down.

On the International Petroleum Exchange the leading indicator for world oil prices, Brent crude, was hit by news that Iraq had moved closer towards resuming oil sales. In afternoon trading in London the September future slumped 21 cents to \$17.88 a barrel, though it later recovered to \$17.99 a barrel. The UN said yesterday it had finalised talks with Iraq on a food distribution plan, opening the way for resumed oil exports.

Bulgaria looks to its farms

At milking time, a herd of cows blocks the main street in the southern Bulgarian village of Koprivlen. When the cowman disappears each animal makes its way home unaccompanied.

More than 80 per cent of Bulgaria's livestock population is privately owned, following the break-up of collective farms with the demise of communism. But herd numbers have shrunk dramatically, a result of the chaotic privatisation of land, animals and machinery in the early 1990s.

Livestock belonging to collective farms was distributed indiscriminately to householders, who often lacked cash to feed their newly acquired animals and experience of looking after them.

The result was widespread slaughtering of cows, including breeding stock, for food. The cattle population had fallen to 358,000 at the beginning of 1997 from 648,000 in 1989, according to the national statistical service.

Analysts say it will take three to five years to overcome the disastrous effects of the ill-prepared transition and put Bulgaria's farm sector on the path to growth.

Bulgarian wheat

Year	Production tonnes m	Export tonnes
1989	5.4	454,000
1990	5.3	446,000
1991	4.5	109,000
1992	3.4	327,000
1993	3.6	36,000
1994	3.7	14,000
1995	3.4	825,000

Source: Ministry of Agriculture

Government officials

Source: Ministry of Agriculture

It pledges to complete the issue of titles to owners this year, which would open the way for consolidation of small plots into larger holdings and encourage development of a land market.

About 70 per cent of the 6.5m hectares included in the privatisation programme has been returned to pre-communist owners and their descendants. But titles have been issued for only five per cent of holdings. Although another 30 per cent of privatised land is registered under a temporary arrangement intended to make it possible to rent or lease landholdings, large tracts of arable land remain uncultivated.

Bulgaria's private producers now grow more than 70 per cent of farm output on holdings averaging less than one hectare. While some co-operatives have been set up, lack of funds has curtailed their productivity. The sector remains short of machinery,

with much equipment stolen or destroyed during the privatisation process.

"The machinery that has survived is too big and powerful to be used on small holdings. We need as many as 250,000 tractors and small mechanical cultivators. Farming has become labour-intensive, as people move back to the villages," said Ms Nelly Stefanova, chairperson of Agricultural Credit Centrale, a state agency which provides loans for farm improvement.

Employment in agriculture has risen to 24 per cent of the workforce as older Bulgarians have returned to cultivate their holdings. In addition to unemployed industrial workers, pensioners moved to the countryside to avoid the effects of last winter's economic collapse.

The switch to subsistence farming has caused a sharp reduction in wheat output. From being self-sufficient in the communist era - and in some years exporting small

quantities to the Soviet Union - Bulgaria will have to import wheat to cover a projected shortfall this year of 1m tonnes.

Annual wheat production has fallen from more than 5m tonnes in the mid-1980s to a projected 2.2m tonnes this year. Apart from the absence of harvesting machinery, farmers have little spare cash to buy fertilisers and pesticides. They have also been subject to bullying by middlemen working on behalf of Bulgarian companies that last year bought wheat cheaply and made substantial profits through illegal exports.

Private farmers say tobacco, a traditional export commanding a high cash price. This year, growers are expected to produce 65,000 tonnes of oriental tobacco compared with 42,000 tonnes in 1996. But this is low compared with annual output of around 150,000 tonnes under communism, when a high percentage of production went to other Comecon countries.

In Koprivlen, farmers are hoping to double tobacco production this year after joining forces to repair an irrigation system that had been abandoned since the collapse of communism.

Kerin Hope and Theodor Troev

COMMODITIES NEWS DIGEST

Fletcher Canada shuts three plants

Fletcher Challenge Canada closed its three British Columbia pulp and paper mills yesterday as workers at the company went on strike demanding greater job security. The outcome of the strike was seen likely to set a precedent across the province, where the government and unions want to increase the number of jobs in the sector and the forest industry is demanding more flexibility from workers. The company, in which New Zealand's Fletcher Challenge holds a majority stake, and the union representing its 2,400 employees are predicting the strike could last several months.

The Pulp, Paper and Woodworkers of Canada union wants the company to create additional jobs through the elimination of overtime and other measures. The company, which reported a C\$14m (US\$10m) loss on sales of C\$437m in the quarter ended March 31, is demanding greater flexibility to contract out work and reduce the size of its workforce, practices agreed to by the union in eastern Canada. Financially-troubled Skeena Cellulose is making the same demands of its employees before re-opening a British Columbia pulp mill closed last month.

The provincial forest industry, burdened by high costs and strict government regulation, lost C\$300m last year and is expected to break even this year, according to Price Waterhouse. In spite of the troubled state of the industry, British Columbia's forestry workers have been encouraged by the province's left-leaning government and have adopted a tough negotiating stance in the face of potential job cuts.

PERUVIAN PRIVATISATION

Centromin sale continues

Privatisation of the assets of Centromin, Peru's state-owned mining and refining giant, continued yesterday in spite of Friday's setback when Industrias Peñoles unexpectedly announced it would not after all be taking control of the metallurgical complex MetalOroya.

The Mexican decision not to proceed came at the 11th hour. Peñoles had placed a generous valuation of \$185m on 80 per cent of MetalOroya when it was auctioned on April 18. This was well ahead of offers of \$121m from Doe Run of the US, a subsidiary of the Remco group, and the \$55m bid by Switzerland's Glencore. In addition, the Mexicans subsequently announced they would buy a further percentage from the Peruvian state making a total investment of \$235.5m.

In a curt communique from Mexico City, Peñoles said simply the "requirements fixed to guarantee the adequate profitability of the investment had not come about". Sources in the Peruvian privatisation office said Peñoles had attempted to re-negotiate certain conditions after the auction, which had proved unacceptable.

Centromin's privatisation committee immediately offered MetalOroya to Doe Run, the runner-up at April's auction. The US company has expressed continued interest in the smelters and refiners and will give a definite response once financing hostilities have been evaluated. Doe Run has until September to take up the offer.

Sally Bowen, Lima

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 Purity (\$ per tonne)

	Cash	3 mths
Close	1559.5-60.5	1567-88
Previous	1541-42	1568.5-70.0
High/Low	1567/1562	1567/1562
AM Official	1561.5-62.0	1569-89
Kerb close	1561.5-62.0	1569-89
Open int.	265,403	
Total daily turnover	145,600	

■ ALUMINIUM ALLOY (\$ per tonne)

	Cash	3 mths
Close	1405-10	1435-40
Previous	1395-400	1425-28
High/Low	1445/1428	
AM Official	1403-05	1433-38
Kerb close	1403-05	1433-38
Open int.	5,153	1435-40
Total daily turnover	2,050	

■ LEAD (\$ per tonne)

	Cash	3 mths
Close	655-5	669-70
Previous	655-5	669-69
High/Low	669-69	674/657
AM Official	662-62.5	674-75
Kerb close	662-62.5	674-75
Open int.	36,777	
Total daily turnover	18,541	

■ NICKEL (\$ per tonne)

	Cash	3 mths
Close	6795-805	6910-20
Previous	6825-35	6940-45
High/Low	6940/6860	
AM Official	6795-800	6914-15
Kerb close	6795-800	6914-15
Open int.	51,935	
Total daily turnover	22,148	

■ TIN (\$ per tonne)

	Cash	3 mths
Close	5580-70	5612-14
Previous	5510-20	5600-70
High/Low	5630/5550	
AM Official	5545-55	5595-80
Kerb close	5545-55	5595-80
Open int.	13,591	
Total daily turnover	5,100	

■ ZINC, special high grade (\$ per tonne)

	Cash	3 mths
Close	1504-05	1505-05
Previous	1481-82	1487-88
High/Low	1505/1488	
AM Official	1498-98.5	1497.5-98.0
Kerb close	1498-98.5	1497.5-98.0
Open int.	96,819	
Total daily turnover	19,688	

■ COPPER, grade A (\$ per tonne)

	Cash	3 mths
Close	2545-30	2315-14
Previous	2427-30	2283-84
High/Low	2570/2495	2318/2290
AM Official	2522-25	2303-11
Kerb close	2522-25	2303-11
Open int.	158,081	
Total daily turnover	98,023	

■ LME AM Official £/t: 1.8881

LME Closing £/t: 1.8885

Spot 1.8871 3 mths 1.9511 6 mths 1.9791 9 mths 1.9791

■ HIGH GRADE COPPER (COMEX)

	Sett. Day's	High	Low	Vol	Open
Jul	110.20	+2.15	110.40	109.30	498,543
Aug	107.00	+2.20	107.00	106.30	285,340
Sep	105.30	+2.10	105.30	104.30	577,238
Oct	105.10	+1.75	105.10	104.10	57,145
Nov	104.80	+1.70	-	-	5,125
Dec	103.35	+1.50	104.20	103.00	248,732
Total					7,763,487

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PRECIOUS METALS CONTINUED

■ GOLD COMEX (100 Troy oz; \$/troy oz)

	Sett. Day's	High	Low	Vol	Open
Jul	320.1	-1.5	320.0	320.0	-
Aug	320.8	-1.4	320.4	320.0	21,220,105.7
Sep	321.4	-1.4	-	-	4
Oct	322.2	-1.5	322.0	321.8	498,110,02
Nov	324.2	-1.6	323.9	323.5	6,498,36,00
Dec	326.2				

هكذا من الاجل

Offshore Funds

Order	Quantity	Unit Price	Total Price	Unit Price	Total Price
1	1	1.00	1.00	1.00	1.00
2	1	1.00	1.00	1.00	1.00
3	1	1.00	1.00	1.00	1.00
4	1	1.00	1.00	1.00	1.00
5	1	1.00	1.00	1.00	1.00
6	1	1.00	1.00	1.00	1.00
7	1	1.00	1.00	1.00	1.00
8	1	1.00	1.00	1.00	1.00
9	1	1.00	1.00	1.00	1.00
10	1	1.00	1.00	1.00	1.00
11	1	1.00	1.00	1.00	1.00
12	1	1.00	1.00	1.00	1.00
13	1	1.00	1.00	1.00	1.00
14	1	1.00	1.00	1.00	1.00
15	1	1.00	1.00	1.00	1.00
16	1	1.00	1.00	1.00	1.00
17	1	1.00	1.00	1.00	1.00
18	1	1.00	1.00	1.00	1.00
19	1	1.00	1.00	1.00	1.00
20	1	1.00	1.00	1.00	1.00
21	1	1.00	1.00	1.00	1.00
22	1	1.00	1.00	1.00	1.00
23	1	1.00	1.00	1.00	1.00
24	1	1.00	1.00	1.00	1.00
25	1	1.00	1.00	1.00	1.00
26	1	1.00	1.00	1.00	1.00
27	1	1.00	1.00	1.00	1.00
28	1	1.00	1.00	1.00	1.00
29	1	1.00	1.00	1.00	1.00
30	1	1.00	1.00	1.00	1.00
31	1	1.00	1.00	1.00	1.00
32	1	1.00	1.00	1.00	1.00
33	1	1.00	1.00	1.00	1.00
34	1	1.00	1.00	1.00	1.00
35	1	1.00	1.00	1.00	1.00
36	1	1.00	1.00	1.00	1.00
37	1	1.00	1.00	1.00	1.00
38	1	1.00	1.00	1.00	1.00
39	1	1.00	1.00	1.00	1.00
40	1	1.00	1.00	1.00	1.00
41	1	1.00	1.00	1.00	1.00
42	1	1.00	1.00	1.00	1.00
43	1	1.00	1.00	1.00	1.00
44	1	1.00	1.00	1.00	1.00
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46	1	1.00	1.00	1.00	1.00
47	1	1.00	1.00	1.00	1.00
48	1	1.00	1.00	1.00	1.00
49	1	1.00	1.00	1.00	1.00
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52	1	1.00	1.00	1.00	1.00
53	1	1.00	1.00	1.00	1.00
54	1	1.00	1.00	1.00	1.00
55	1	1.00	1.00	1.00	1.00
56	1	1.00	1.00	1.00	1.00
57	1	1.00	1.00	1.00	1.00
58	1	1.00	1.00	1.00	1.00
59	1	1.00	1.00	1.00	1.00
60	1	1.00	1.00	1.00	1.00
61	1	1.00	1.00	1.00	1.00
62	1	1.00	1.00	1.00	1.00
63	1	1.00	1.00	1.00	1.00
64	1	1.00	1.00	1.00	1.00
65	1	1.00	1.00	1.00	1.00
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Headon	3091	3201	3511	189.4

[illegible]

BUILDING & CONSTRUCTION

1175 1176 1177 1178 1179 1180 1181 1182 1183 1184 1185 1186 1187 1188 1189 1190 1191 1192 1193 1194 1195 1196 1197 1198 1199 1200 1201 1202 1203 1204 1205 1206 1207 1208 1209 1210 1211 1212 1213 1214 1215 1216 1217 1218 1219 1220 1221 1222 1223 1224 1225 1226 1227 1228 1229 1230 1231 1232 1233 1234 1235 1236 1237 1238 1239 1240 1241 1242 1243 1244 1245 1246 1247 1248 1249 1250 1251 1252 1253 1254 1255 1256 1257 1258 1259 1260 1261 1262 1263 1264 1265 1266 1267 1268 1269 1270 1271 1272 1273 1274 1275 1276 1277 1278 1279 1280 1281 1282 1283 1284 1285 1286 1287 1288 1289 1290 1291 1292 1293 1294 1295 1296 1297 1298 1299 1300 1301 1302 1303 1304 1305 1306 1307 1308 1309 1310 1311 1312 1313 1314 1315 1316 1317 1318 1319 1320 1321 1322 1323 1324 1325 1326 1327 1328 1329 1330 1331 1332 1333 1334 1335 1336 1337 1338 1339 1340 1341 1342 1343 1344 1345 1346 1347 1348 1349 1350 1351 1352 1353 1354 1355 1356 1357 1358 1359 1360 1361 1362 1363 1364 1365 1366 1367 1368 1369 1370 1371 1372 1373 1374 1375 1376 1377 1378 1379 1380 1381 1382 1383 1384 1385 1386 1387 1388 1389 1390 1391 1392 1393 1394 1395 1396 1397 1398 1399 1400 1401 1402 1403 1404 1405 1406 1407 1408 1409 1410 1411 1412 1413 1414 1415 1416 1417 1418 1419 1420 1421 1422 1423 1424 1425 1426 1427 1428 1429 1430 1431 1432 1433 1434 1435 1436 1437 1438 1439 1440 1441 1442 1443 1444 1445 1446 1447 1448 1449 1450 1451 1452 1453 1454 1455 1456 1457 1458 1459 1460 1461 1462 1463 1464 1465 1466 1467 1468 1469 1470 1471 1472 1473 1474 1475 1476 1477 1478 1479 1480 1481 1482 1483 1484 1485 1486 1487 1488 1489 1490 1491 1492 1493 1494 1495 1496 1497 1498 1499 1500 1501 1502 1503 1504 1505 1506 1507 1508 1509 1510 1511 1512 1513 1514 1515 1516 1517 1518 1519 1520 1521 1522 1523 1524 1525 1526 1527 1528 1529 1530 1531 1532 1533 1534 1535 1536 1537 1538 1539 1540 1541 1542 1543 1544 1545 1546 1547 1548 1549 1550 1551 1552 1553 1554 1555 1556 1557 1558 1559 1560 1561 1562 1563 1564 1565 1566 1567 1568 1569 1570 1571 1572 1573 1574 1575 1576 1577 1578 1579 1580 1581 1582 1583 1584 1585 1586 1587 1588 1589 1590 1591 1592 1593 1594 1595 1596 1597 1598 1599 1600 1601 1602 1603 1604 1605 1606 1607 1608 1609 1610 1611 1612 1613 1614 1615 1616 1617 1618 1619 1620 1621 1622 1623 1624 1625 1626 1627 1628 1629 1630 1631 1632 1633 1634 1635 1636 1637 1638 1639 1640 1641 1642 1643 1644 1645 1646 1647 1648 1649 1650 1651 1652 1653 1654 1655 1656 1657 1658 1659 1660 1661 1662 1663 1664 1665 1666 1667 1668 1669 1670 1671 1672 1673 1674 1675 1676 1677 1678 1679 1680 1681 1682 1683 1684 1685 1686 1687 1688 1689 1690 1691 1692 1693 1694 1695 1696 1697 1698 1699 1700 1701 1702 1703 1704 1705 1706 1707 1708 1709 1710 1711 1712 1713 1714 1715 1716 1717 1718 1719 1720 1721 1722 1723 1724 1725 1726 1727 1728 1729 1730 1731 1732 1733 1734 1735 1736 1737 1738 1739 1740 1741 1742 1743 1744 1745 1746 1747 1748 1749 1750 1751 1752 1753 1754 1755 1756 1757 1758 1759 1760 1761 1762 1763 1764 1765 1766 1767 1768 1769 1770 1771 1772 1773 1774 1775 1776 1777 1778 1779 1780 1781 1782 1783 1784 1785 1786 1787 1788 1789 1790 1791 1792 1793 1794 1795 1796 1797 1798 1799 1800 1801 1802 1803 1804 1805 1806 1807 1808 1809 1810 1811 1812 1813 1814 1815 1816 1817 1818 1819 1820 1821 1822 1823 1824 1825 1826 1827 1828 1829 1830 1831 1832 1833 1834 1835 1836 1837 1838 1839 1840 1841 1842 1843 1844 1845 1846 1847 1848 1849 1850 1851 1852 1853 1854 1855 1856 1857 1858 1859 1860 1861 1862 1863 1864 1865 1866 1867 1868 1869 1870 1871 1872 1873 1874 1875 1876 1877 1878 1879 1880 1881 1882 1883 1884 1885 1886 1887 1888 1889 1890 1891 1892 1893 1894 1895 1896 1897 1898 1899 1900 1901 1902 1903 1904 1905 1906 1907 1908 1909 1910 1911 1912 1913 1914 1915 1916 1917 1918 1919 1920 1921 1922 1923 1924 1925 1926 1927 1928 1929 1930 1931 1932 1933 1934 1935 1936 1937 1938 1939 1940 1941 1942 1943 1944 1945 1946 1947 1948 1949 1950 1951 1952 1953 1954 1955 1956 1957 1958 1959 1960 1961 1962 1963 1964 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993

DIVERSIFIED INDUSTRIALS

	Price	52 week	High	Yld
	1/4	low	1/4	15
Amcor Free A.M.	100	100	100	15.75
Amcor Free B.M.	100	100	100	15.75
Amcor Free C.M.	100	100	100	15.75
Amcor Free D.M.	100	100	100	15.75
Amcor Free E.M.	100	100	100	15.75
Amcor Free F.M.	100	100	100	15.75
Amcor Free G.M.	100	100	100	15.75
Amcor Free H.M.	100	100	100	15.75
Amcor Free I.M.	100	100	100	15.75
Amcor Free J.M.	100	100	100	15.75
Amcor Free K.M.	100	100	100	15.75
Amcor Free L.M.	100	100	100	15.75
Amcor Free M.M.	100	100	100	15.75
Amcor Free N.M.	100	100	100	15.75
Amcor Free O.M.	100	100	100	15.75
Amcor Free P.M.	100	100	100	15.75
Amcor Free Q.M.	100	100	100	15.75
Amcor Free R.M.	100	100	100	15.75
Amcor Free S.M.	100	100	100	15.75
Amcor Free T.M.	100	100	100	15.75
Amcor Free U.M.	100	100	100	15.75
Amcor Free V.M.	100	100	100	15.75
Amcor Free W.M.	100	100	100	15.75
Amcor Free X.M.	100	100	100	15.75
Amcor Free Y.M.	100	100	100	15.75
Amcor Free Z.M.	100	100	100	15.75

ELECTRICITY

Notes	Price	+ or -	52 week	ASX	Yld
British Energy	198 1/2	high	low	Confm	6.7
Energy Group	66 1/2	163 1/2	96	1,792	6.7
Energy & NW	66 1/2	163 1/2	96	1,792	6.7
B NW	137 1/2	204 1/2	137 1/2	3,018	7.5
International Ind.	245 1/2	204 1/2	164 1/2	4,215	7.5
International Power	54 1/2	54 1/2	54 1/2	6,859	5.7
North Elec Prt Sls	114 1/2	52 1/2	57	127.5	8.8
Northern Ireland	42 1/2	42 1/2	42 1/2	685.1	8.9
Powergen	77 1/2	77 1/2	77 1/2	1,725	5.1
Scottish Power	46 1/2	46 1/2	46 1/2	8,550	5.1

ELECTRONIC & ELECTRICAL ENGINEERING

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CHEMICALS

	Index	Price	% chg	52 week	YTD
ACA-500		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Alcoa Inc.		100 1/4	+1 1/2	94 1/2-101 1/4	27 1/2
Aluminum Co. of America		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Canada		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of India		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Japan		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Korea		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Mexico		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Norway		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Sweden		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Switzerland		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Taiwan		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Thailand		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of U.S.A.		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of U.K.		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of West Germany		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Yugoslavia		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Zaire		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Zimbabwe		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Argentina		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Brazil		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Chile		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Colombia		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Costa Rica		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Cuba		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Dominican Republic		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Ecuador		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of El Salvador		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Guatemala		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Honduras		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Iceland		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Ireland		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Italy		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Luxembourg		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Netherlands		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of New Zealand		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Norway		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Portugal		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Romania		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Russia		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Singapore		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of South Africa		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Spain		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Sri Lanka		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Sweden		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Switzerland		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Taiwan		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Thailand		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of U.S.A.		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of U.K.		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of West Germany		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Yugoslavia		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Zaire		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2
Aluminum Co. of Zimbabwe		150 1/4	+1 1/2	140 1/2-151 1/4	27 1/2

ENGINEERING

1990		1991		1992		1993		1994		1995		1996		1997		1998		1999		2000		2001		2002		2003		2004		2005		2006		2007		2008		2009		2010		2011		2012		2013		2014		2015		2016		2017		2018		2019		2020		2021		2022		2023		2024		2025		2026		2027		2028		2029		2030																			
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100

ENGINEERING - Cont.

Brand	Model	Price	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000
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EXTRACTIVE INDUSTRIES - Cont.[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

INVESTMENT TRUSTS

[illegible]**INVESTMENT TRUSTS - Cont.**[illegible]

2 INV TRUSTS SPLIT CAPITAL

[illegible]

OUR £25 MILLION
RE-INVESTMENT
ON MERSEYSIDE
IS DOWN TO
THE QUALITY
OF THE LOCAL
WORKFORCE.

JOHN CARNALL,
FACTORY MANAGER, KODAK LIMITED

TO DISCOVER MORE
ABOUT THE INVESTMENT
POTENTIAL OF
MERSEYSIDE
TELEPHONE

0800 22 0151

A pool of talent

Mail: mersey@ipmail.cybase.co.uk

ENGINEERING, VEHICLES

[illegible]**HEALTH CARE - Cont.**

	High	Low	Mid
Chicago Merc. A	171 1/2	171 1/2	171 1/2
Chicago Merc. B	171 1/2	171 1/2	171 1/2
Chicago Merc. C	171 1/2	171 1/2	171 1/2
Chicago Merc. D	171 1/2	171 1/2	171 1/2
Chicago Merc. E	171 1/2	171 1/2	171 1/2
Chicago Merc. F	171 1/2	171 1/2	171 1/2
Chicago Merc. G	171 1/2	171 1/2	171 1/2
Chicago Merc. H	171 1/2	171 1/2	171 1/2
Chicago Merc. I	171 1/2	171 1/2	171 1/2
Chicago Merc. J	171 1/2	171 1/2	171 1/2
Chicago Merc. K	171 1/2	171 1/2	171 1/2
Chicago Merc. L	171 1/2	171 1/2	171 1/2
Chicago Merc. M	171 1/2	171 1/2	171 1/2
Chicago Merc. N	171 1/2	171 1/2	171 1/2
Chicago Merc. O	171 1/2	171 1/2	171 1/2
Chicago Merc. P	171 1/2	171 1/2	171 1/2
Chicago Merc. Q	171 1/2	171 1/2	171 1/2
Chicago Merc. R	171 1/2	171 1/2	171 1/2
Chicago Merc. S	171 1/2	171 1/2	171 1/2
Chicago Merc. T	171 1/2	171 1/2	171 1/2
Chicago Merc. U	171 1/2	171 1/2	171 1/2
Chicago Merc. V	171 1/2	171 1/2	171 1/2
Chicago Merc. W	171 1/2	171 1/2	171 1/2
Chicago Merc. X	171 1/2	171 1/2	171 1/2
Chicago Merc. Y	171 1/2	171 1/2	171 1/2
Chicago Merc. Z	171 1/2	171 1/2	171 1/2

HOUSEHOLD GOODS

NAME	AGE	SEX	REL	DATE	TIME	PLACE	REMARKS
John Smith	25	M	H	1902	10	St. Paul	Arrived
Mary Jones	22	F	W	1902	11	St. Paul	Arrived
James Brown	30	M	H	1902	12	St. Paul	Arrived
Elizabeth White	28	F	W	1902	13	St. Paul	Arrived
William Black	35	M	H	1902	14	St. Paul	Arrived
Anna Green	20	F	W	1902	15	St. Paul	Arrived
Robert Lee	27	M	H	1902	16	St. Paul	Arrived
Charlotte King	24	F	W	1902	17	St. Paul	Arrived
Thomas Hall	32	M	H	1902	18	St. Paul	Arrived
Isabella Young	21	F	W	1902	19	St. Paul	Arrived
George Ward	29	M	H	1902	20	St. Paul	Arrived
Frances Scott	26	F	W	1902	21	St. Paul	Arrived
Charles Adams	31	M	H	1902	22	St. Paul	Arrived
Elizabeth Baker	23	F	W	1902	23	St. Paul	Arrived
William Clark	33	M	H	1902	24	St. Paul	Arrived
Anna Evans	20	F	W	1902	25	St. Paul	Arrived
Robert Foster	27	M	H	1902	26	St. Paul	Arrived
Charlotte Grant	24	F	W	1902	27	St. Paul	Arrived
Thomas Harris	32	M	H	1902	28	St. Paul	Arrived
Isabella Hill	21	F	W	1902	29	St. Paul	Arrived
George King	29	M	H	1902	30	St. Paul	Arrived
Frances Knight	26	F	W	1902	31	St. Paul	Arrived
Charles Lamb	31	M	H	1902	32	St. Paul	Arrived
Elizabeth Lane	23	F	W	1902	33	St. Paul	Arrived
William Lee	33	M	H	1902	34	St. Paul	Arrived
Anna Miller	20	F	W	1902	35	St. Paul	Arrived
Robert Nelson	27	M	H	1902	36	St. Paul	Arrived
Charlotte Olsen	24	F	W	1902	37	St. Paul	Arrived
Thomas Parker	32	M	H	1902	38	St. Paul	Arrived
Isabella Quinn	21	F	W	1902	39	St. Paul	Arrived
George Reed	29	M	H	1902	40	St. Paul	Arrived
Frances Scott	26	F	W	1902	41	St. Paul	Arrived
Charles Smith	31	M	H	1902	42	St. Paul	Arrived
Elizabeth Taylor	23	F	W	1902	43	St. Paul	Arrived
William White	33	M	H	1902	44	St. Paul	Arrived
Anna Young	20	F	W	1902	45	St. Paul	Arrived
Robert Zane	27	M	H	1902	46	St. Paul	Arrived
Charlotte Adams	24	F	W	1902	47	St. Paul	Arrived
Thomas Baker	32	M	H	1902	48	St. Paul	Arrived
Isabella Clark	21	F	W	1902	49	St. Paul	Arrived
George Evans	29	M	H	1902	50	St. Paul	Arrived
Frances Foster	26	F	W	1902	51	St. Paul	Arrived
Charles Grant	31	M	H	1902	52	St. Paul	Arrived
Elizabeth Harris	23	F	W	1902	53	St. Paul	Arrived
William Hill	33	M	H	1902	54	St. Paul	Arrived
Anna King	20	F	W	1902	55	St. Paul	Arrived
Robert Knight	27	M	H	1902	56	St. Paul	Arrived
Charlotte Lamb	24	F	W	1902	57	St. Paul	Arrived
Thomas Lee	32	M	H	1902	58	St. Paul	Arrived
Isabella Miller	21	F	W	1902	59	St. Paul	Arrived
George Nelson	29	M	H	1902	60	St. Paul	Arrived
Frances Olsen	26	F	W	1902	61	St. Paul	Arrived
Charles Parker	31	M	H	1902	62	St. Paul	Arrived
Elizabeth Quinn	23	F	W	1902	63	St. Paul	Arrived
William Reed	33	M	H	1902	64	St. Paul	Arrived
Anna Scott	20	F	W	1902	65	St. Paul	Arrived
Robert Smith	27	M	H	1902	66	St. Paul	Arr

INSURANCE

	Sales	Paid	Prize	St week	Mid week	Wk ending
Alfred Lloyd	100	100	100	100	100	100
Austin	100	100	100	100	100	100
Barnes	100	100	100	100	100	100
Campbell	100	100	100	100	100	100
Carroll	100	100	100	100	100	100
Davis	100	100	100	100	100	100
Elliott	100	100	100	100	100	100
Foster	100	100	100	100	100	100
Gibson	100	100	100	100	100	100
Harris	100	100	100	100	100	100
Jones	100	100	100	100	100	100
Kelly	100	100	100	100	100	100
Lewis	100	100	100	100	100	100
Martin	100	100	100	100	100	100
Nelson	100	100	100	100	100	100
Olsen	100	100	100	100	100	100
Parker	100	100	100	100	100	100
Ross	100	100	100	100	100	100
Smith	100	100	100	100	100	100
Taylor	100	100	100	100	100	100
Thompson	100	100	100	100	100	100
White	100	100	100	100	100	100
Wilson	100	100	100	100	100	100
Zimmerman	100	100	100	100	100	100

LONDON STOCK EXCHANGE

Footsie surges ahead to new closing record

MARKET REPORT
By Steve Thompson,
UK Stock Market Editor

Some much needed encouraging economic data coupled with a burst of actual and rumoured corporate news were the main driving forces behind a rampant UK stock market yesterday.

Additional help for London came from Wall Street's excellent performance last Friday and again at the opening of US trading yesterday, which saw the Dow Jones Industrial Average push up to within 20 points of its previous closing record, 7,923.31, reached on July 9 after London

trading ceased for the day. Those positives saw the FTSE 100 race ahead to finish the session a net 57.9 higher at a record closing level of 4,857.4. The index is only 21.6 short of its all-time intraday high of 4,879.0 reached on July 4. Turnover was 737.3m.

But the leading index left the other FTSE indices in its wake worrying about the impact of sterling's continued strength keeping an iron grip on the second liners, many of which are export-driven.

The FTSE 250 closed the day only 15.6 ahead at 4,623.9m, while the FTSE SmallCap settled 1.0 up at 2,205.4.

Senior traders in London said

the stock market was being pushed higher by the prospect of more takeover and merger activity coupled with the need for fund managers to find a safe home for the continuing influx of investment funds.

"Liquidity is the driving force; fund managers know they have to get cash into the market and London is as safe a haven as they can find, at the moment," said the head of marketmaking at one of the big European securities houses. He added that the FTSE 100 could well run on to hit the 5,000 level in the short term, given no downside surprises.

UK strategists were more cautious. Mr Richard Kersley of BZW

pointed out that the "bullishness" in London is being confined to the big cap variety of stocks; upside influences are mostly international and focused on the drugs, utilities and banks.

London began the day in subdued fashion, the FTSE 100 opening around 13 points higher before coming off quickly as sterling made further rapid progress.

The index briefly dipped into negative territory during the first hour of trading, before embarking on a strong and determined upward move which saw it finish at the day's best and a new closing record.

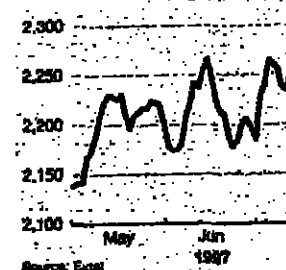
The producer price news, showing output prices down 0.2 per

cent and input prices down 0.8 per cent, failed to stem the upwards performance of sterling. The Bank of England's sterling intervention against a basket of leading currencies moved up to 105.7 before easing back to finish at 105.5 with sterling remaining comfortably above the DM3.00 level.

ICI was easily the best individual performer among the FTSE 100 leaders, its shares spiralling upwards in the wake of the sales of its bulk chemicals businesses to Du Pont of the US for \$3bn.

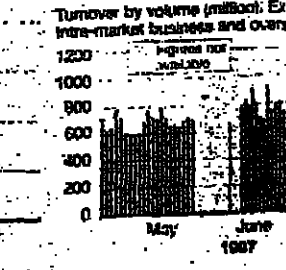
Drug stocks, always favourites among American investors, were also in the forefront of the market's advance.

FTSE All-Share Index



Source: Eas

Equity shares traded



Turnover by volume (million): Exchange, intermarket business and overseas turnover

Indices and ratios

FTSE 100	4857.4	+57.9
FTSE 250	4623.9	+15.6
FTSE 350	2325.9	+24.1
FTSE All-Share	2272.48	+22.07
FTSE All-Share yield	3.42	3.45

FT 30

FT 30	3080.1	+27.4
FTSE Non-Fin p/e	19.18	18.98
FTSE 100 P/E Sep	4880.0	+46.0
10 yr Gilt yield	7.14	7.07
Long Gilt/Equity yield ratio	2.10	2.08

Best performing sectors

1 Pharmaceuticals	+4.0
2 Chemicals	+3.3
3 Telecommunications	+2.4
4 Consumer Goods	+2.1
5 Water	+1.8

Worst performing sectors

1 Retailers	-0.7
2 Gas Distribution	-0.6
3 Textiles & Apparel	-0.6
4 Breweries & Pubs & Rest	-0.5
5 Extractive Inds	-0.5

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LFFE) £25 per full index point (AP7)

Open	Sett	Change	High	Low	Est. vol	Open int.
Sep	4837.0	4880.0	+42.0	4882.0	4814.0	11414
Dec	4836.5	4841.0	+4.5	4836.5	4836.0	1075
Mar	-	4892.0	+48.0	-	-	0

FTSE 250 INDEX FUTURES (LFFE) £10 per full index point

Sep	4623.0	+15.0	-	-	-	7117
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FTSE 100 INDEX OPTION (LFFE) £250 £10 per full index point

Open	Sett	Change	High	Low	Est. vol	Open int.
Sep	4837.0	4880.0	+42.0	4882.0	4814.0	11414

EURO STYLE FTSE 100 INDEX OPTION (LFFE) £10 per full index point

Open	Sett	Change	High	Low	Est. vol	Open int.
Sep	4837.0	4880.0	+42.0	4882.0	4814.0	11414

LONDON RECENT ISSUES: EQUITIES

Issue	Price	Yield	Div.	Div. Yld	P/E
ICI	121.5	1.2%	1.2	1.2	14.2
BT	121.5	1.2%	1.2	1.2	14.2
BT	121.5	1.2%	1.2	1.2	14.2

RIGHTS OFFERS

Issue	Price	Yield	Div.	Div. Yld	P/E
ICI	121.5	1.2%	1.2	1.2	14.2
BT	121.5	1.2%	1.2	1.2	14.2
BT	121.5	1.2%	1.2	1.2	14.2

FTSE GOLD MINES INDEX

Gold Mines Index (31)	1280.4	+2.5	1280.4	2088.1	2.28	-	2088.1	1270.14
Alcan (14)	1401.89	+1.5	1380.81	2881.31	5.24	22.58	2881.31	1241.88
Barrick (14)	1401.89	+1.5	1380.81	2881.31	5.24	22.58	2881.31	1241.88

FTSE Actuaries Share Indices

FTSE 100	4857.4	+57.9	4799.5	4767.8	4762.4	3698.3	3.36	2.04	18.26	89.05	2073.47
FTSE 250	4623.9	+15.6	4408.5	4386.2	4385.5	4291.6	3.75	1.81	20.69	94.49	1851.42
FTSE 350	2325.9	+24.1	2201.8	2174.5	2174.5	2081.0	3.01	1.81	19.50	97.52	1854.4

FTSE Actuaries Industry Sectors

212.97	2136.30	3.21	1.75	22.33	4
182.08	2136.30	3.48	1.83	19.84	45
238.64	1842.72	3.42	1.84	18.87	45
238.28	-	3.46	1.86	18.50	1
	Year	Div.	Net	P/E	Xd
Jul 8	ago	yield%	cover	ratio	y
576.26	3516.43	3.50	2.01	18.83	85.78
222.83	4029.16	3.72	2.38	14.08	100
784.96	3626.15	3.44	1.95	18.05	90.43
783.60	2441.39	1.53	2.21	36.89	35.71

FTSE Actuaries Industry Sectors

20 GEN INDUSTRIAL	1863.84	+0.8	1849.77	1834.58	1835.50	1992.82	4.32	1.88	15.38	43.98	1088.35
21 Building & Construction	1347.07	+0.2	1344.78	1338.21	1338.21	1100.21	3.80	1.86	18.47	25.35	1171.97
22 Building Materials & Merchants	1782.00	+0.2	1782.00	1782.00	1782.00	1782.00	4.39	2.82	9.89	41.89	901.79

FTSE Actuaries Industry Sectors

30 CONSUMER GOODS	3437.64	+0.1	3437.64	3437.64	3437.64	3437.64	3.19	1.81	21.84	87.28	1859.08
32 Alcoholic Beverages	3437.64	+0.1	3437.64	3437.64	3437.64	3437.64	3.19	1.81	21.84	87.28	1859.08
33 Food Products	3437.64	+0.1	3437.64	3437.64	3437.64	3437.64	3.19	1.81	21.84	87.28	1859.08

FTSE Actuaries Industry Sectors

40 SERVICES	2671.59	+0.2	2667.19	2658.86	2612.17	2482.65	2.98	1.88	21.08	48.60	1441.86
41 Distribution	2671.59	+0.2	2667.19	2658.86	2612.17	2482.65	2.98	1.88	21.08	48.60	1441.86
42 Leisure & Hotels	2671.59	+0.2	2667.19	2658.86	2612.17	2482.65	2.98	1.88	21.08	48.60	1441.86

FTSE Actuaries Industry Sectors

50 UTILITIES	3041.83	+1.8	3013.45	3043.91	3044.04	2943.50	4.81	1.49	18.17	51.66	1414.19
60 Electricity	3041.83	+1.8	3013.45	3043.91	3044.04	2943.50	4.81	1.49	18.17	51.66	1414.19
64 Gas Distribution	3041.83	+1.8	3013.45	3043.91	3044.04	2943.50	4.81	1.49	18.17	51.66	1414.19

FTSE Actuaries Industry Sectors

70 FINANCIALS	4477.82	+0.9	4408.78	4378.72	4403.31	3988.24	3.15	2.20	18.59	80.50	2008.74
71 Banks	4477.82	+0.9	4408.78	4378.72	4403.31	3988.24	3.15	2.20	18.59	80.50	2008.74
73 Insurance	4477.82	+0.9	4408.78	4378.72	4403.31	3988.24	3.15	2.20	18.59	80.50	2008.74

FTSE Actuaries Industry Sectors

80 INVESTMENT TRUSTS	2221.31	+0.1	2227.59	2225.82	2248.78	1958.59	3.55	1.83	19.19	42.90	1821.44
89 FTSE All-Share <th>2272.48</th> <th>+22.07</th> <th>2227.59</th> <th>2225.82</th> <th>2248.78</th> <th>1958.59</th> <th>3.55</th> <th>1.83</th> <th>19.19</th> <th>42.90</th> <th>1821.44</th>	2272.48	+22.07	2227.59	2225.82	2248.78	1958.59	3.55	1.83	19.19	42.90	1821.44
100 FTSE All-Share <th>2272.48</th> <th>+22.07</th> <th>2227.59</th> <th>2225.82</th> <th>2248.78</th> <th>1958.59</th> <th>3.55</th> <th>1.83</th> <th>19.19</th> <th>42.90</th> <th>1821.44</th>	2272.48	+22.07	2227.59	2225.82	2248.78	1958.59	3.55	1.83	19.19	42.90	1821.44

ICI up on DuPont deal

By Peter John, Martin Brice
and Joel Kibazo

ICI, on the rack recently, shot back into favour as the company announced the sale of its industrial chemical operations to DuPont of the US for \$3bn.

The shares leapt more than nine per cent and dragged the rest of the chemicals sector up in their wake. They closed up 89% at 850p, almost 50 per cent above the price five years ago when the company first suggested hiving off its Zeneca pharmaceuticals arm.

The jump to the top of the Footsie on turnover of 14m was helped by an enthusiastic trading update at which ICI said it expected 1997 first-half profits of £160m before exceptional.

Analysts were delighted by the speed with which ICI had disposed of the parts of the business no longer required since the acquisition of Unilever's specialty chemicals business.

The sale marks the shift from bulk commodity chemicals toward higher margin specialty chemicals. And ICI added it was confident of selling its remaining North American titanium dioxide business and achieving a good price.

US investors were said to be returning to the stock

and Nikko said the shares could rise to between 950p and £10.00. However other analysts pointed out that the prospective price was now the most demanding in the sector. Dredner Kleinwort Benson retained its sell stance and said fair value would be around 800p.

Leading pharmaceuticals reached for new heights in response to Friday's strength on Wall Street and positive fundamental data.

Zeneca was up 78% at £21.58. SmithKline Beecham 43 to £12.47 and Glaxo Wellcome 58% to £13.76.

With Wall Street running and the US drug groups in favour, the differential in p/e multiples has grown.

One analyst pointed out that Warner Lambert was on 33 times 1998 earnings. Zeneca was only on 23.7 times.

And recent market research showed pharmaceutical sales in the first four months of 1997, 10 markets rose 6 per cent in the first four months of 1997.

Commercial Union jumped sharply as a sector recommendation coincided with the return of some fairly standard takeover talk.

The shares have been hit hard recently in anticipation that profits will be shot down by the surge in sterling. The insurer generates around 45 per cent of operating profits outside the UK.

Sterling was still moving on yesterday but the sterling story was supplanted by a tale that ABN Amro, the Dutch bank, was very interested in buying CUs Delta Lloyd Insurance arm. Also, Credit Lyonnais Laing rec-

ommended the sector ahead of the interim results season which kicks off in two weeks. CU ended 21% up at 701p.

BT regained 16 to 456p in a "technical bounce" following Friday's profits warning from the company's would-be merger partner, MCI of the US. Up to 10 per cent of BT shares are said to be at the centre of a complex trading deal that exploits the differing value of stock in the merger partners.

Although much of yesterday's volume of 34m was said to be hedging those positions, it was a far cry from the 195m shares traded on Friday.

A raft of downgrades on BT followed the profit warning from MCI, with analysts shaving about £200m off this year's forecasts and £400m off next year.

Traders said BT shares

could rise if it renegotiated merger terms with MCI, since the current share price discounted the merger going ahead on the original terms.

Generator PowerGen gained 14% to 789p helped by relief that its £300m share of the windfall tax would be met out of current funds.

The chairman also told shareholders at the company's annual general meeting that the group's business performance during the current year was "in line with expectations" and the company approved a share buy-back.

A profits warning from rentals group Thorncroft cast a shadow over the stock yesterday.

Speaking at the company's annual meeting, Chairman Sir Colin Southgate said the company expects the strength of sterling to reduce reported current year profits

by around £11m of which around £5m has arisen since the year's end.

Thorn said that during the first quarter turnover was down one per cent on a constant currency basis and 8.5 per cent at actual exchange rates.

The shares closed at 158p. The stock has been weak since the group was demerged from EMI last August and the shares retreated from a peak of 394p to a low of 150p in May.

Brisk trading in WH Smith brought turnover of 8.8m by the close as the shares appreciated 9 to 330p.

Analysts dismissed a weekend press report saying WH Smith believed a rival retailer is lining up finance for a takeover of the group. The report pointed to food retailer Asda Group, a penny lighter at 141p, and electronic goods retailer Dixons among Smith's likely predators. Dixons improved 14 to 560p.

It also suggested Boots, 13 ahead at 787p, as another possible bidder. However, analysts indicated Boots had considered a takeover of WH Smith but decided against such a move.

Carina Energy lifted 16% to 489p as Lehman Brothers raised its stance to "outperform" from "neutral".

Lehman said the stock had dropped 24 per cent from their mid-March high, even as the news flow from the company had improved.

Hardy Oil & Gas rose 12% to 869p - a new high - after the group gave an encouraging report about drilling on an exploration well in the Timor Sea.

Lasmo eased 1% to 288p after Salomon Brothers advised clients to take profits. The broker said valuations were stretched and it was targeting 252p over a twelve-month period.

Shield Diagnostics improved 17% to 542p on

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

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INDICES

[illegible]

[illegible]

US INDICES

	Jul 11	Jul 10	Jul 9	1987 High	Low	Stock comp. %
Utilities						
Edison	7021.82	7066.76	7042.43	7062.31	6991.68	7052.31 41.22
				(17)	(14)	(17)
Cons. Bonds	102.58	104.18	103.83	104.08	101.00	103.77 54.93
				(107)	(143)	(107)
Transport	2918.91	2912.81	2915.85	2922.87	2922.87	2917.81 15.23
				(17)	(17)	(17)
	231.85	232.10	232.81	240.85	230.47	235.46 16.53
				(227)		(227)
July 1st High 7062.82 7063.34 7063.44						(1987) (1987)
July 1st Low 7019.22 7019.22 7019.22						(1987) (1987)
Financial						
First	91.08	91.78	90.54	91.25	73.81	91.75 4.40
				(17)	(91)	(17)
Industries						
General	1074.81	1078.10	1059.08	1081.84	855.42	1081.84 2.92
				(17)	(114)	(17)
Chemical	104.21	108.50	103.05	105.75	80.73	107.76 1.13
				(17)	(17)	(17)
Oil	474.2	471.29	473.02	474.2	474.2	474.2 1.13
				(17)	(114)	(17)
Steel Comp.	636.47	631.77	631.03	636.47	641.20	636.47 25.40
				(17)	(284)	(17)
Aluminum	1282.82	1400.93	1408.93	1282.82	1291.00	1282.82 58.97
				(117)	(284)	(117)
RATINGS						
	Jul 11	Jul 11	Jul 3	Jun 27	Jun 27	Jun 27
• P & H Inc. Div. Yield	1.83	1.83	1.57	2.26		
• P & H Inc. Div. Yield	1.55	1.56	1.62	2.03		
• P & H Inc. P/E ratio	24.91	24.75	24.35	21.87		
NEW YORK CITY STOCKS						
TRADING ACTIVITY						
	Jul 11	Jul 11	Jul 11	Jul 11	Jul 11	Jul 9
• Volume						
Amex	7343.00	4294	-1%	Amex SE	59127.24	5739.34
NYSE	4,889,000	124	-1%	NYSE	20,198	21,514
OTC	5,892,000	481	-5%	OTC	660,211	645,320
TAT	3,404,000	384	-%	NASDAQ		717,815
• Stocks	5,139,100	334	-3%	Bonds Traded	3,012	3,008
• Bonds	4,889,000	124	-1%	Foreign	1,271	1,774
• Options	4,847,100	351	-1%	Falls	1,076	1,045
• Futures	4,788,000	611	-2%	Unchanged	606	591
• Over-the-Counter	4,240,100	434	-%	High	411	394
• Total	4,952,400	398	-4%	Low	20	20
Open	Low	Est. Vol.	Open	Low	Est. Vol.	Open
• SP500						

AUSTRALIA (Jul 14 / Aug 5)[illegible]

Battery	24	±	30.1
Bulbhol	10.20	+20	3
CMAGet	4.35ml	+06	4.1
DeflPen	185.67	-75	10

[illegible][illegible]

NEW YORK STOCK EXCHANGE PRICES

4 pm close July 14

[illegible]

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NYSE PRICES

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AMEX PRICES

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EASDAQ

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Dow edges closer to 8,000 level

Strong dollar propels Frankfurt to peak

AMERICAS

Wall Street opened higher in morning trading with the Dow Jones Industrial Average moving within range of the 8,000 mark on the back of good gains for technology and financial services stocks, writes John Labate in New York.

By midday the Dow strengthened 10.68 at 7,932.50 while the broader Standard & Poor's 500 index improved 3.58 to 920.26. Among Dow stocks, International Paper rose 1 1/2 at \$56 3/4 and Boeing gained \$1 at \$57 1/2.

DuPont, which announced the acquisition of much of ICI's industrial chemical business, was unchanged at \$63 1/2.

Technology stocks, large and small, were off to a strong start for the week. Among Dow components, Hewlett-Packard gained 3 1/2 at \$93 1/2 and IBM rose \$1 at \$96 1/2. The Nasdaq Composite index gained 17.57 to 1,520.19 as Intel surged \$2 at \$79 1/2 and Microsoft added 3 1/2 at \$137 1/2.

Networking firm Ascend Communications jumped \$4 1/2 or more than 8 per cent at \$52 1/2.

Internet access company Netscape Communications rose \$3 1/2 at \$41 1/2 while Internet company At Home, which went public on Friday, surged more than 25 per

EUROPE

The strength of the dollar, which hovered around a six year-high against the D-Mark, propelled many of the bourses forward.

FRANKFURT moved ahead from Friday's record close as the Dax index climbed 67.89 to close at 1,422.19, off a day's best of 4,151.51.

The insurance sector outperformed as Munich Re's first half figures, released on Friday, won it upgrades from a number of analysts. The shares closed up DM285 at DM6,430, and Allianz

Paris was closed for the Bastille Day holiday.

gained DM14.05 at DM432.50. First-half steel production figures, up 13 per cent from 1996, helped the sector. Preussag rose DM10.40 to DM549 and Thyssen gained DM7 to DM440. The companies also continued to benefit from news that they were planning to start talks on co-operating in shipbuilding.

Strong German motor production figures, released late on Friday, supported car shares. Volkswagen moved up DM3.90 to DM187 and Porsche was DM30 higher at DM2,870 on reports that the

ASIA PACIFIC

Active buying of high-tech stocks continued to drive Tokyo higher, lifting shares above the 20,000 level for the first time since early July, writes Gwen Robinson.

The Nikkei 225 average jumped 353.23 or 1.8 per cent to close at the day's high of 20,228.72 after opening at the day's low of 19,909.09.

Trading started on a positive note as investors, encouraged by New York's advance on Friday and strong Nikkei index futures in Chicago, bought high-tech electricals and precision instrument makers. Stocks stayed firm throughout the day on solid buying by both foreign investors and domestic institutions. Sentiment was further buoyed by the recovery of financial issues and some construction stocks.

Volume edged down from Friday's 427m shares to an estimated 420m. Advances led declines 607 to 469 with 157 unchanged. The Topix index of all first-section stocks rose 20.75 to 1,525.14 and the capital-weighted Nikkei 300 was up 4.88 at 296.43. In London, the ISE/Nikkei-50 Index rose 2.11 to 1,642.75.

Among stocks that fell sharply in the wake of the failure of construction group Tokai Kogyo were, Aoki, a medium-sized general contractor, and Yaohan Japan, which both recovered after their executives denied late last week they were in financial difficulty.

Aoki soared 17 1/2 per cent to Y98 and Yaohan Japan climbed Y30 to Y125 on buybacks.

However, investors harboured anxieties about the prospects for troubled contractors and other debt-ridden companies and are unlikely to chase such issues significantly higher, analysts said. Some construction-related stocks continued on their recent downward path. Ando fell Y19 to Y436, Nishimatsu Construction Y17 to Y718 and Tokai Kogyo slid Y5 to Y10.

Precision instrument makers were the day's biggest gainers, rising nearly 5 per cent as a group. Ricoh jumped Y70 to Y1,610, Canon Y70 to Y3,340 and Nikon Y80 to Y1,990. Among other high-technology issues, Sony surged Y230 to Y10,100, Advantest Y150 to Y9,800, Tokyo Electron Y400 to Y6,530 and TDK Y240 to Y9,000. Other blue chip issues also enjoyed strong gains with Honda rising Y100 to Y3,540, Fuji Photo Film Y60 to Y4,750 and Bridgestone Y120 to Y2,880.

Banks rebounded. Sumitomo Bank climbed Y100 to Y1,860, Bank of Tokyo-Mitsubishi Y70 to Y2,160 and Sanwa Bank Y70 to Y1,610. In Osaka, the OSE average jumped 185.27 to 30,976.81 and volume fell to 16.3m shares.

HONG KONG looked to the banks to lead a broad rally up into record setting territory although profit-taking in the property sector

pulled the market back from its best levels. The Hang Seng index finished 145.65 higher at a record 15,370.94, off a peak of 15,502.54, in volume of HK\$1.1bn.

HSBC roared to a record high of HK\$250 but edged back to close HK\$4 higher at HK\$249 as investors took positions ahead of the bank's results due on August 4.

Second line finance stocks were strong on speculation that Chinese companies would continue buying into Hong Kong groups. Wing Hang Bank jumped HK\$5 to HK\$47.50, Wing Lung Bank added HK\$1.20 to HK\$36.50 and Union Bank picked up HK\$1.15 to HK\$19.50.

MANILA gave up early gains to close with the composite index 9.59 ahead at 2,710.73 after rising to a high of 2,747.93 in the first hour of trading.

On Friday following the effective devaluation of the peso the share market soared 7.6 per cent but yesterday foreign buyers were said to have turned more circumspect.

Dollar earner PLDT rose 30 pesos to 985 pesos. Talk of a tariff increase lifted power utility Meralco by 13 pesos to 156 pesos.

BANGKOK continued to track the foreign exchanges, slipping 16.64 or 2.7 per cent to 611.91 on the SET index as the baht had another seesaw day.

SYDNEY closed lower on profit-taking. The All Ordinaries index was down 36.1 at 2,673.0 after a high of

FTSE Actuaries Share Indices

Hourly changes

Index	Open	High	Low	Close
FTSE Actuaries 100	2078.43	2082.87	2086.94	2087.85
FTSE Actuaries 200	2659.18	2672.38	2670.58	2672.00

acquisition persisted and the shares ended F11.80 higher at F146.50 after touching a session best of F148.30. The shares, which traded 9.8m yesterday, have advanced nearly 30 per cent since the start of this month and more than 50 per cent since mid-April.

Nedlloyd jumped F13.20 or 5.5 per cent to F161.30 after news of a disposal sparked hopes for further restructuring.

Heineken stayed out of step with the broad upturn, slipping F16 to F13.34. HELSINKI continued to set the pace within the Nordic bloc, rising 32.72 to a record 3,417.01 on the Hex index.

STOCKHOLM pushed higher too, lifting the general index 23.13 to 3,417.01. NOKIA tracked recent gains for US high tech, adding Fmk10 at Fmk429. Ericsson was a similar story among Swedish shares, gaining

struck a deal with managerial staff to reduce salary costs.

Benetton, the often volatile clothing group, jumped L620 to L63.87 after calling a news conference for today.

MADRID moved higher in quiet trading overshadowed by political uncertainty. The bourse closed for 10 minutes during the morning as the nation paid its respects to the latest ETA murder victim. At the close, the general index was up 4.53 at 628.10.

Repsol rose Pta200 to Pta6,550 as doubts about tariff increases were said to have diminished.

Asturias de Zinc added Pta210 to Pta3,228 after Glencore International of the US announced plans to increase its stake in the company to 45 per cent.

ISTANBUL added to its string of record closes after Saturday's parliamentary confidence vote which was, as expected, won by the new right wing coalition headed by the conservative prime minister, Mr Mesut Yilmaz.

The IMKB National-100 index rose 15 to 2,043, having brushed a trading record of 2,036 in late trade. The index has risen almost 32 per cent since mid-June.

Written and edited by Michael Morgan and Jeffrey Brown

Nikkei jumps 1.8% to regain 2,000 points level

Mexico City falls back

MEXICO CITY ran into renewed profit-taking following the modest sell-off that pushed the market lower on Friday. Volume was light and dealers said that sentiment was holding up well after the recent strong rally. The IPC index, which notched up a run of eight consecutive record highs up to last Thursday's 11,600, fell 1.16 to 11,588.4 at 4,809.96 lower at mid-session. Financial group

Banamex-Accival fell 57 centavos to 19.88 pesos.

SANTIAGO moved higher at the opening but by mid-morning had slipped back. There was talk that telecoms giant CTC was set to produce earnings towards the bottom end of brokers' estimates. The shares fell almost 1 per cent to 3,400 at mid-session. The IPSA index was off 0.38 at 134.28.

MARKETS IN PERSPECTIVE					
	% change in local currency	% change in US \$	% change in US \$	% change in US \$	% change in US \$
	1 Week	4 Weeks	1 Year	Start of 1997	Start of 1997
Austria	-0.01	+4.74	+26.71	+20.75	+6.15
Belgium	+0.21	+2.06	+43.14	+28.85	+13.13
Denmark	+3.94	+6.82	+52.09	+31.85	+15.45
Finland	+2.28	+6.53	+75.58	+39.02	+25.41
France	+0.31	+4.65	+39.90	+25.42	+10.20
Germany	+2.49	+7.31	+52.73	+37.16	+20.62
Ireland	+2.47	+3.37	+38.49	+25.32	+13.41
Italy	+3.18	+9.33	+38.59	+35.57	+21.22
Netherlands	+1.65	+10.68	+66.45	+44.63	+26.82
Norway	+0.12	+5.22	+42.77	+25.69	+13.61
Spain	+0.69	+6.53	+75.57	+40.83	+22.58
Sweden	+2.74	+8.63	+69.93	+36.77	+21.89
Switzerland	+0.68	+7.46	+50.02	+45.76	+35.39
UK	+0.40	+3.30	+23.81	+13.55	+12.45
EUROPE	+0.65	+4.50	+41.32	+27.64	+18.35
Australia	-1.17	+2.01	+28.09	+14.00	+7.66
Hong Kong	+1.77	+7.60	+24.85	+4.69	+5.56
Indonesia	-3.40	+1.23	+24.83	+10.62	+7.82
Japan	-0.67	-1.48	-7.13	+3.16	+8.38
Malaysia	-5.54	-7.18	-13.29	-20.15	-18.71
New Zealand	-0.69	+7.46	+19.14	+6.86	+4.29
Philippines	-1.14	-2.89	-21.93	-19.73	-28.94
Singapore	-1.02	+1.05	-2.30	-5.30	-6.98
Thailand	-10.05	+24.40	-57.75	-27.26	-37.64
Canada	+0.57	+1.34	+35.93	+14.39	+15.53
USA	+0.15	+2.71	+41.58	+23.03	+23.03
Brazil	-0.71	+10.37	+80.00	+72.08	+67.16
Mexico	+0.09	+12.79	+63.37	+41.78	+43.59
South Africa	-0.58	-0.39	+3.24	+8.70	+12.82
WORLD INDEX	+0.12	+2.55	+28.68	+19.24	+17.99

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FT/S&P ACTUARIES WORLD INDICES

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REGIONAL AND COUNTRY MARKETS										--- DOLLAR INDEX ---									
FRIDAY JULY 11 1997										THURSDAY JULY 10 1997									
Region/Country	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	% chg on day	Gross Div. Yield	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	% chg on day	Gross Div. Yield			
Australia (78)	206.99	0.2	206.98	199.97	217.85	211.82	0.2	3.63	206.14	207.48	168.80	214.84	211.31	242.87	188.44	198.28			
Austria (25)	199.84	-0.8	174.86	143.43	183.87	183.54	0.2	1.79	207.28	176.81	143.88	183.25	183.13	203.68	174.70	183.18			
Belgium (25)	255.11	-0.1	222.19	183.24	224.73	224.82	0.2	3.97	257.31	226.05	183.88	224.28	222.93	281.11	206.70	207.48			
Brazil (30)	314.00	-2.6	274.71	225.58	288.87	284.27	-2.5	1.17	322.44	283.24	230.56	275.15	275.15	281.11	207.48	207.48			
Canada (127)	217.20	0.6	190.02	156.04	196.82	215.52	0.4	1.89	215.82	188.59	154.28	196.49	214.88	217.20	152.42	156.75			
Denmark (32)	406.33	0.0	356.48	281.82	373.82	372.21	1.0	1.37	408.37	356.98	290.49	399.79	386.72	340.37	303.48	307.04			
Finland (28)	390.21	-0.4	362.85	215.68	276.19	330.33	0.3	1.85	391.49	294.78	215.48	274.43	370.08	304.88	267.87	182.63			
France (84)	258.81	-0.6	204.38	167.83	214.92	218.35	0.4	2.39	234.91	208.35	167.33	218.17	218.17	204.38	167.33	204.38			
Germany (56)	226.94	0.2	198.55	163.04	208.79	208.79	1.2	1.36	226.82	196.99	161.83	208.23	208.23	226.71	168.70	170.28			
Hong Kong, China (88)	520.05	2.3	463.73	380.81	527.15	527.15	2.4	2.87	518.00	455.03	370.30	471.60	514.91	509.83	407.55	424.92			
Indonesia (77)	243.88	-1.7	213.17	175.05	224.17	224.17	-1.1	1.77	247.82	217.70	177.18	225.83	389.88	204.38	183.20	204.38			
Ireland (17)	366.35	0.1	323.13	265.35	335.79	343.05	0.7	2.20	366.05	324.18	263.81	335.79	343.05	343.05	278.66	278.66			
Italy (89)	100.25	1.2	87.69	72.01	92.21	128.53	1.6	1.95	88.04	87.00	70.80	90.17	126.52	100.25	70.80	100.25			
Japan (48)	135.96	-0.1	118.57	97.69	125.10	97.69	0.4	0.81	136.11	118.57	97.30	123.92	97.30	150.97	107.57	150.96			
Malaysia (107)	485.65	0.3	424.88	348.91	448.80	488.48	1.1	1.47	483.33	424.58	345.81	440.04	483.33	485.65	483.33	559.16			
Mexico (27)	1734.86	-0.1	1517.60	1248.22	1595.87	1498.35	-0.8	1.28	1736.93	1525.77	1241.85	1581.34	1736.93	1736.93	1110.33	1161.80			
Netherlands (18)	422.19	0.2	369.38	303.31	384.41	384.41	1.3	1.03	421.20	370.00	301.10	370.00	370.00	422.19	301.10	370.00			
New Zealand (14)	24.78	0.2	21.92	18.08	21.92	21.92	0.5	3.87	24.83	21.92	18.08	21.92	21.92	24.78	18.08	21.92			
Norway (41)	320.82	-0.3	280.67	230.48	281.95	281.95	0.5	1.91	321.93	282.80	230.14	293.10	320.82	320.82	244.84	255.65			
Philippines (22)	143.30	-3.8	125.37	102.85	131.84	214.25	0.2	0.97	148.96	130.85	108.48	136.82	168.28	214.25	102.85	214.25			
Singapore (42)	386.77	0.1	338.38	277.87	365.83	288.30	0.6	1.19	386.40	338.43	278.22	365.83	386.40	386.40	278.22	365.83			
South Africa (44)	365.78	0.1	311.27	255.61	327.32	353.67	0.1	2.45	355.25	312.02	253.95	324.83	353.41	311.27	255.61	311.27			
Spain (50)	289.42	-0.8	226.71	183.56	247.87	304.50	0.1	2.18	271.50	228.49	194.06	247.83	304.24	276.01	171.81	171.82			
Sweden (49)	508.43	0.8	444.81	365.27	467.75	583.29	1.4	1.77	504.13	442.85	360.38	458.88	575.53	508.43	334.34	347.74			
Switzerland (33)	318.85	-1.9	279.83	229.79	294.27	288.48	-1.2	1.16	320.00	286.40	233.07	287.33	329.59	318.85	286.40	287.33			
Thailand (42)	59.16	-7.1	51.76	42.90	54.43	69.34	-4.3	4.45	63.61	55.93	45.99	54.43	59.16	59.16	42.90	54.43			
United Kingdom (213)	318.43	1.1	278.59	228.77	292.85	278.59	0.4	1.80	315.04	273.74	225.21	286.22	276.74	311.10	229.63	238.12			
USA (844)	371.35	0.3	324.88	268.78	341.83	371.35	0.3	1.98	370.07	325.08	264.65	338.82	370.07	371.35	262.30	262.30			
Americas (828)	340.28	0.3	297.68	244.45	318.03	288.44	0.3	1.85	339.21	297.97	242.40	308.82	288.80	340.28	242.40	242.40			
Europe (718)	280.89	0.2	245.74	201.80	255.42	280.87	0.2	2.45	280.31	246.28	200.28	255.20	280.89	282.11	201.80	211.32			
Nordic (150)	430.50	0.4	379.63	309.26	396.05	430.76	1.1	1.71	428.70	378.35	306.40	396.27	430.94	291.45	301.38	301.38			
Pacific Basin (881)	154.00	0.1	134.73	110.64	141.88	112.16	0.6	1.27	153.77	135.08	109.93	141.88	154.00	154.00	110.64	141.88			
Europe-Asia (1559)	206.87	0.2	181.07	148.68	190.41	188.12	0.6	1.94	205.60	181.48	147.89	188.09	201.17	206.87	148.68	190.41			
North America (771)	381.84	0.4	318.59	259.56	332.89	360.96	0.3	1.88	380.55	316.72	257.74	328.25	382.32	381.84	259.56	332.89			
Europe Ex. UK (526)	254.05	-0.3	222.26	182.32	233.72	244.44	0.6	1.81	254.75	223.78	182.11	231.93	243.80	254.05	182.32	233.72			
Pacific Ex. Japan (526)	310.21	-0.8	271.40	222.87	285.39	274.60	1.3	2.72	307.38	270.01	219.73	285.06	307.38	307.38	222.87	285.39			
World Ex. US (1827)	211.00	0.2	184.80	151.89	184.12	178.18	0.5	1.92	210.07	185.06	150.80	181.80	211.00	211.00	151.89	184.12			
World Ex. UK (2258)	298.67	0.1	224.55	184.40	236.12	225.58	0.4	1.80	289.17	228.12	183.20	225.51	297.26	298.67	183.20	225.58			
World Ex. Japan (1898)	326.50	0.3	285.84	234.58	300.57	316.09	0.5	1.98	325.49	285.82	232.88	297.33	316.09	326.50	232.88	297.33			
The World Index (2471)	261.98	0.2	228.20	188.22	241.02	231.51	0.5	1.80	261.24	227.57	186.82	236.33	230.49	261.98	188.22	241.02			